UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 29, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____

Commission file number 001-38366

Gates Industrial Corporation plc

(Exact Name of Registrant as Specified in its Charter)

England and Wales	**98-1395184**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1144 Fifteenth Street, Denver, Colorado 80202	
(Address of principal executive offices)	(Zip Code)

(303) 744-1911

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, $0.01 par value per share	GTES	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 29, 2024, there were 261,612,701 ordinary shares of $0.01 par value outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “quarterly report” or “report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. 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. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those expressed in or implied by our forward-looking statements, including but not limited to the factors described in Item 1A. “Risk Factors” in Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2023 (the “annual report”), as filed with the Securities and Exchange Commission (the “SEC”), which include the following: economic, political and other risks associated with international operations; availability of raw materials or other manufacturing inputs at favorable prices in sufficient quantities, or at a given time; changes in our relationships with, or the financial condition, performance, purchasing power or inventory levels of, key channel partners; catastrophic events, including global pandemics; dependence on the continued operation of our manufacturing facilities, supply chains, distribution systems and information technology systems; our ability to forecast demand or meet significant increases in demand; our cost-reduction actions; market acceptance of new product introductions and innovations; longer lives of products used in our end markets may affect demand for some of our replacement products; development of the replacement market in emerging markets may limit our ability to grow; pursuit of strategic transactions, including acquisitions, divestitures, restructurings, joint ventures, strategic alliances or investments, which could create risks and present unforeseen integration obstacles or costs; our investments in joint ventures; loss or financial instability of any significant customer; societal responses to sustainability issues, including those related to climate change; the ability to maintain and enhance our strong brand; pricing pressures from customers; cyber-security vulnerabilities, threats, and more sophisticated and targeted computer crimes; failure of information systems; highly complex and rapidly evolving global privacy, data protection and data security requirements; existing or new laws and regulations, including but not limited to those relating to health, safety, and environmental concerns, and the sale of aftermarket products; failure to comply with anti-corruption laws and other laws governing our international operations; recalls, product liability claims or product warranties claims; failure to develop, obtain, enforce and protect our intellectual property rights in all jurisdictions throughout the world; infringement on the intellectual property of others; litigation, legal and regulatory proceedings and obligations, and the availability and coverage of insurance; loss of senior management or key personnel; work stoppages and other labor matters; potential requirement to make additional cash contributions to our defined benefit pension plans; change in our effective tax rates or additional tax liabilities; change in tax laws; tax authorities may no longer treat us as being exclusively a resident of the U.K. for tax purposes; our substantial leverage, including interest rate risk; and the significant influence of our Sponsor (as defined herein) over us, as such factors may be updated from time to time in the Company’s periodic filings with the SEC. Investors are urged to consider carefully the disclosure in this report and our other filings with the SEC, which are accessible on the SEC’s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. Gates undertakes no obligation to update or supplement any forward-looking statements as a result of new information, future events or otherwise, except as required by law.

Website Disclosure

We use our website (www.gates.com) as a channel of distribution of company information. The information we post through this channel may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, SEC filings and public conference calls, and webcasts. In addition, you may automatically receive email alerts and other information about Gates Industrial Corporation when you enroll your email address by visiting the “Investor Resources—Email Alerts” section of our website at https://investors.gates.com. The contents of our website and any alerts are not, however, a part of this report.

ABOUT THIS QUARTERLY REPORT

Financial Statement Presentation

Gates Industrial Corporation plc is a public limited company that was incorporated under the Companies Act 2006 on September 25, 2017 and is registered in England and Wales.

Certain monetary amounts, percentages and other figures included elsewhere in this quarterly report 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.

All amounts in this quarterly report are expressed in United States of America (the “U.S.”) dollars, unless indicated otherwise.

Certain Definitions

As used in this quarterly report, unless otherwise noted or the context requires otherwise:

- “Gates,” the “Company,” “we,” “us” and “our” refer to Gates Industrial Corporation plc and its consolidated subsidiaries;
- “Blackstone” or “our Sponsor” refer to investment funds affiliated with Blackstone Inc., which together own approximately 19.8% of our outstanding ordinary shares as of June 29, 2024; and
- “Board” refers to the board of directors of Gates Industrial Corporation plc.

PART I — FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)
Gates Industrial Corporation plc

Unaudited Condensed Consolidated Statements of Operations

(dollars in millions, except per share amounts)	Three months ended June 29, 2024	Three months ended July 1, 2023	Six months ended June 29, 2024	Six months ended July 1, 2023
Net sales	$ 885.5	$ 936.3	$ 1,748.1	$ 1,834.0
Cost of sales	528.1	583.6	1,060.7	1,156.2
Gross profit	**357.4**	**352.7**	**687.4**	**677.8**
Selling, general and administrative expenses	218.3	220.7	430.0	452.8
Transaction-related expenses	1.2	0.6	1.6	0.8
Restructuring expenses	1.6	2.2	2.8	7.7
Other operating expenses	0.1	0.1	0.1	0.1
Operating income from continuing operations	**136.2**	**129.1**	**252.9**	**216.4**
Interest expense	49.1	44.5	86.6	85.3
Other (income) expenses	(3.1)	3.7	(4.6)	4.0
Income from continuing operations before taxes	**90.2**	**80.9**	**170.9**	**127.1**
Income tax expense	12.3	9.6	46.8	24.9
Net income from continuing operations	**77.9**	**71.3**	**124.1**	**102.2**
Loss on disposal of discontinued operations, net of tax, respectively, of $0, $0, $0 and $0	0.3	0.1	0.4	0.4
Net income	**77.6**	**71.2**	**123.7**	**101.8**
Less: non-controlling interests	6.9	6.3	13.0	10.5
Net income attributable to shareholders	**$ 70.7**	**$ 64.9**	**$ 110.7**	**$ 91.3**
Earnings per share				
Basic				
Earnings per share from continuing operations	$ 0.27	$ 0.24	$ 0.42	$ 0.33
Earnings per share from discontinued operations	—	—	—	—
Earnings per share	**$ 0.27**	**$ 0.24**	**$ 0.42**	**$ 0.33**
Diluted				
Earnings per share from continuing operations	$ 0.26	$ 0.23	$ 0.41	$ 0.32
Earnings per share from discontinued operations	—	—	—	—
Earnings per share	**$ 0.26**	**$ 0.23**	**$ 0.41**	**$ 0.32**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Gates Industrial Corporation plc

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income	**$ 77.6**	**$ 71.2**	**$ 123.7**	**$ 101.8**
Other comprehensive (loss) income				
Foreign currency translation:				
—Net translation (loss) gain on foreign operations, net of tax benefit (expense), respectively, of $0.2, $(0.2), $3.3 and $(2.2)	(91.2)	0.2	(160.6)	82.3
—Gain (loss) on net investment hedges, net of tax (expense) benefit, respectively, of $(0.9), $2.1, $(3.9) and $3.8	6.0	(7.8)	22.0	(18.3)
Total foreign currency translation movements	**(85.2)**	**(7.6)**	**(138.6)**	**64.0**
Cash flow hedges (interest rate derivatives):				
— Gain arising in the period, net of tax expense, respectively, of $(1.0), $(5.9), $(4.4) and $(3.4)	2.8	17.7	13.0	10.2
—Reclassification to net income, net of tax benefit, respectively, of $ 2.3, $1.0, $4.5 and $1.6	(6.7)	(2.8)	(13.5)	(4.6)
Total cash flow hedges movements	**(3.9)**	**14.9**	**(0.5)**	**5.6**
Post-retirement benefits:				
—Reclassification of prior year actuarial movements to net income, net of tax benefit, respectively, of $0.1, $0.2, $0.3 and $0.4	(0.5)	(0.6)	(0.9)	(1.3)
Total post-retirement benefits movements	**(0.5)**	**(0.6)**	**(0.9)**	**(1.3)**
Other comprehensive (loss) income	**(89.6)**	**6.7**	**(140.0)**	**68.3**
Comprehensive (loss) income for the period	**$ (12.0)**	**$ 77.9**	**$ (16.3)**	**$ 170.1**
Comprehensive (loss) income attributable to shareholders:				
—(Loss) income arising from continuing operations	$ (12.1)	$ 96.1	$ (9.4)	$ 183.6
—Loss arising from discontinued operations	(0.3)	(0.1)	(0.4)	(0.4)
	(12.4)	**96.0**	**(9.8)**	**183.2**
Comprehensive income (loss) attributable to non-controlling interests	0.4	(18.1)	(6.5)	(13.1)
	$ (12.0)	**$ 77.9**	**$ (16.3)**	**$ 170.1**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Gates Industrial Corporation plc

Unaudited Condensed Consolidated Balance Sheets

(dollars in millions, except share numbers and per share amounts)	As of June 29, 2024	As of December 30, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 579.7	$ 720.6
Trade accounts receivable, net	807.5	768.2
Inventories	696.5	647.2
Taxes receivable	54.9	30.4
Prepaid expenses and other assets	237.9	234.9
Total current assets	**2,376.5**	**2,401.3**
Non-current assets		
Property, plant and equipment, net	599.6	630.0
Goodwill	1,966.5	2,038.7
Pension surplus	8.3	8.6
Intangible assets, net	1,309.4	1,386.1
Right-of-use assets	127.7	120.1
Taxes receivable	18.3	18.5
Deferred income taxes	608.1	622.4
Other non-current assets	20.4	28.8
Total assets	**$ 7,034.8**	**$ 7,254.5**
Liabilities and equity		
Current liabilities		
Debt, current portion	$ 21.8	$ 36.5
Trade accounts payable	441.3	457.7
Taxes payable	61.4	36.6
Accrued expenses and other current liabilities	238.9	248.5
Total current liabilities	**763.4**	**779.3**
Non-current liabilities		
Debt, less current portion	2,310.3	2,415.0
Post-retirement benefit obligations	79.1	83.8
Lease liabilities	117.8	110.6
Taxes payable	75.6	79.4
Deferred income taxes	106.4	119.4
Other non-current liabilities	87.9	123.1
Total liabilities	**3,540.5**	**3,710.6**
Commitments and contingencies (Note 18)		
Shareholders' equity		
—Shares, par value of $0.01 each - authorized shares: 3,000,000,000; outstanding shares: 261,601,984 (December 30, 2023: authorized shares: 3,000,000,000; outstanding shares: 264,259,788)	2.6	2.6
—Additional paid-in capital	2,600.9	2,583.8
—Accumulated other comprehensive loss	(949.0)	(828.5)
—Retained earnings	1,522.5	1,462.3
Total shareholders' equity	**3,177.0**	**3,220.2**
Non-controlling interests	317.3	323.7
Total equity	**3,494.3**	**3,543.9**
Total liabilities and equity	**$ 7,034.8**	**$ 7,254.5**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Gates Industrial Corporation plc
Unaudited Condensed Consolidated Statements of Cash Flows

(dollars in millions)	Six months ended June 29, 2024	Six months ended July 1, 2023
Cash flows from operating activities		
Net income	$ 123.7	$ 101.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	109.1	108.5
Foreign exchange and other non-cash financing (income) expenses	(11.9)	20.5
Share-based compensation expense	13.8	16.3
Decrease in post-employment benefit obligations, net	(4.2)	(5.1)
Deferred income taxes	(13.2)	(22.3)
Gain on disposal of property, plant and equipment	(7.2)	(0.1)
Other operating activities	(1.2)	3.6
Changes in operating assets and liabilities:		
—Accounts receivable	(56.9)	(66.8)
—Inventories	(66.0)	23.0
—Accounts payable	(3.2)	(2.1)
—Prepaid expenses and other assets	13.6	7.6
—Taxes payable	(1.4)	(0.8)
—Other liabilities	(22.2)	(0.2)
Net cash provided by operating activities	**72.8**	**183.9**
Cash flows from investing activities		
Purchases of property, plant and equipment	(37.9)	(24.4)
Purchases of intangible assets	(7.4)	(5.4)
Purchases of investments	(11.2)	—
Cash paid under company-owned life insurance policies	(4.1)	(17.0)
Cash received under company-owned life insurance policies	10.0	5.3
Proceeds from the sale of property, plant and equipment	10.5	0.4
Net cash used in investing activities	**(40.1)**	**(41.1)**
Cash flows from financing activities		
Issuance of shares	7.1	16.7
Repurchase of shares	(50.3)	(251.7)
Proceeds from long-term debt	1,800.0	100.0
Payments of long-term debt	(1,907.0)	(9.8)
Debt issuance costs paid	(17.7)	(0.3)
Other financing activities	10.3	(15.3)
Net cash used in financing activities	**(157.6)**	**(160.4)**
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(16.2)	4.4
Net decrease in cash and cash equivalents and restricted cash	**(141.1)**	**(13.2)**
Cash and cash equivalents and restricted cash at the beginning of the period	724.0	581.4
Cash and cash equivalents and restricted cash at the end of the period	**$ 582.9**	**$ 568.2**
Supplemental schedule of cash flow information		
Interest paid	$ 86.0	$ 76.6
Income taxes paid	$ 61.4	$ 48.0
Accrued capital expenditures	$ 1.4	$ 1.6

The accompanying notes form an integral part of these condensed consolidated financial statements.

Gates Industrial Corporation plc
Unaudited Condensed Consolidated Statements of Shareholders' Equity

(dollars in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
	Three months ended June 29, 2024						
As of March 30, 2024	$ 2.6	$ 2,590.1	$ (865.9)	$ 1,451.8	**$ 3,178.6**	$ 316.8	**$ 3,495.4**
Net income	—	—	—	70.7	**70.7**	6.9	**77.6**
Other comprehensive loss	—	—	(83.1)	—	**(83.1)**	(6.5)	**(89.6)**
Total comprehensive (loss) income	**—**	**—**	**(83.1)**	**70.7**	**(12.4)**	**0.4**	**(12.0)**
Other changes in equity:							
—Issuance of shares	—	4.6	—	—	**4.6**	—	**4.6**
—Shares withheld for employee taxes	—	—	—	—	**—**	—	**—**
—Buy-back and cancellation of shares	—	—	—	—	**—**	—	**—**
—Share-based compensation	—	6.2	—	—	**6.2**	0.1	**6.3**
As of June 29, 2024	**$ 2.6**	**$ 2,600.9**	**$ (949.0)**	**$ 1,522.5**	**$ 3,177.0**	**$ 317.3**	**$ 3,494.3**

(dollars in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
	Three months ended July 1, 2023						
As of April 1, 2023	$ 2.8	$ 2,559.9	$ (857.0)	$ 1,509.3	**$ 3,215.0**	$ 338.6	**$ 3,553.6**
Net income	—	—	—	64.9	**64.9**	6.3	**71.2**
Other comprehensive income (loss)	—	—	31.1	—	**31.1**	(24.4)	**6.7**
Total comprehensive income (loss)	**—**	**—**	**31.1**	**64.9**	**96.0**	**(18.1)**	**77.9**
Other changes in equity:							
—Issuance of shares	—	6.1	—	—	**6.1**	—	**6.1**
—Shares withheld for employee taxes	—	(0.1)	—	—	**(0.1)**	—	(0.1)
—Buy-back and cancellation of shares	(0.2)	—	—	(253.6)	**(253.8)**	—	(253.8)
—Share-based compensation	—	7.2	—	—	**7.2**	0.1	**7.3**
As of July 1, 2023	**$ 2.6**	**$ 2,573.1**	**$ (825.9)**	**$ 1,320.6**	**$ 3,070.4**	**$ 320.6**	**$ 3,391.0**

(dollars in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
	Six months ended June 29, 2024						
As of December 30, 2023	$ 2.6	$ 2,583.8	$ (828.5)	$ 1,462.3	**$ 3,220.2**	$ 323.7	**$ 3,543.9**
Net income	—	—	—	110.7	**110.7**	13.0	**123.7**
Other comprehensive loss	—	—	(120.5)	—	**(120.5)**	(19.5)	**(140.0)**
Total comprehensive (loss) income	**—**	**—**	**(120.5)**	**110.7**	**(9.8)**	**(6.5)**	**(16.3)**
Other changes in equity:							
—Issuance of shares	—	7.1	—	—	**7.1**	—	**7.1**
—Shares withheld for employee taxes	—	(2.4)	—	—	**(2.4)**	—	**(2.4)**
—Buy-back and cancellation of shares	—	—	—	(50.5)	**(50.5)**	—	**(50.5)**
—Share-based compensation	—	12.4	—	—	**12.4**	0.1	**12.5**
As of June 29, 2024	**$ 2.6**	**$ 2,600.9**	**$ (949.0)**	**$ 1,522.5**	**$ 3,177.0**	**$ 317.3**	**$ 3,494.3**

(dollars in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
	Six months ended July 1, 2023						
As of December 31, 2022	$ 2.8	$ 2,542.1	$ (917.8)	$ 1,482.9	**$ 3,110.0**	$ 333.6	**$ 3,443.6**
Net income	—	—	—	91.3	**91.3**	10.5	**101.8**
Other comprehensive income (loss)	—	—	91.9	—	**91.9**	(23.6)	**68.3**
Total comprehensive income (loss)	**—**	**—**	**91.9**	**91.3**	**183.2**	**(13.1)**	**170.1**
Other changes in equity:							
—Issuance of shares	—	17.4	—	—	**17.4**	—	**17.4**
—Shares withheld for employee taxes	—	(1.7)	—	—	**(1.7)**	—	**(1.7)**
—Buy-back and cancellation of shares	(0.2)	—	—	(253.6)	**(253.8)**	—	**(253.8)**
—Share-based compensation	—	15.3	—	—	**15.3**	0.1	**15.4**
As of July 1, 2023	**$ 2.6**	**$ 2,573.1**	**$ (825.9)**	**$ 1,320.6**	**$ 3,070.4**	**$ 320.6**	**$ 3,391.0**

Gates Industrial Corporation plc

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Introduction

A. Background

Gates Industrial Corporation plc (the "Company") is a public limited company that was registered in England and Wales on September 25, 2017.

In these condensed consolidated financial statements and related notes, all references to "Gates," "we," "us," and "our" refer, unless the context requires otherwise, to Gates Industrial Corporation plc and its consolidated subsidiaries.

B. Accounting periods

The Company prepares its annual consolidated financial statements for the period ending on the Saturday nearest December 31. Accordingly, the condensed consolidated balance sheets as of June 29, 2024 and December 30, 2023, and the related condensed consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity are presented, where relevant, for the 91-day period from March 31, 2024 to June 29, 2024, with comparative information for the 91-day period from April 2, 2023 to July 1, 2023 and for the 182-day period from December 31, 2023 to June 29, 2024, with comparative information for the 182-day period from January 1, 2023 to July 1, 2023.

C. Basis of preparation

The condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars unless otherwise indicated. The condensed consolidated financial statements and related notes contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of June 29, 2024 and the results of its operations and cash flows for the periods ended June 29, 2024 and July 1, 2023. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year.

The preparation of consolidated financial statements under U.S. GAAP requires us to make assumptions and estimates concerning the future that affect the reported amounts of assets, liabilities, revenue and expenses. Estimates and assumptions are particularly important in accounting for items such as revenue, rebates, impairment of long-lived assets, intangible assets and goodwill, inventory valuation, financial instruments, expected credit losses, product warranties, income taxes and post-retirement benefits. Estimates and assumptions used are based on factors such as historical experience, observance of trends in the industries in which we operate and information available from our customers and other outside sources.

These condensed consolidated financial statements are unaudited and have been prepared on substantially the same basis as Gates' audited annual consolidated financial statements and related notes for the year ended December 30, 2023. The condensed consolidated balance sheet as of December 30, 2023 has been derived from those audited financial statements.

During 2021, the Company implemented a program with an unrelated third party under which we may periodically sell trade accounts receivable from one of our aftermarket customers with whom we have extended payment terms as part of a commercial agreement. The purpose of using this program is to offset the working capital impact resulting from this terms extension. All eligible accounts receivable from this customer are covered by the program, and any factoring is solely at our option. Following the factoring of a qualifying receivable, because we maintain no continuing involvement in the underlying receivable, and collectability risk is fully transferred to the unrelated third party, we account for these transactions as a sale of a financial asset and derecognize the asset. Cash received under the program is classified as operating cash inflows in the consolidated statement of cash flows. As of June 29, 2024, the collection of $114.7 million of our trade accounts receivable had been accelerated under this program, compared to the accelerated collection of $112.4 million as of December 30, 2023. During the three and six months ended June 29, 2024, we incurred costs in respect of this program of $2.8 million and $6.0 million, respectively, which are recorded under other (income) expenses. During the three and six months ended July 1, 2023, we incurred costs in respect of this program of $1.6 million and $3.0 million, respectively.

These condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 30, 2023 included in the Company's Annual Report on Form 10-K.

The accounting policies used in preparing these condensed consolidated financial statements are the same as those applied in the prior year.

2. Recent accounting pronouncements

- Accounting Standards Update ("ASU") 2023-07 "*Segment Reporting*" (Topic 280): Improvements to Reportable Segment Disclosures

  In November 2023, the FASB issued an ASU that expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures regarding significant segment expenses. The updated standard is effective for our annual periods beginning in fiscal year 2024 and interim periods beginning in the first quarter of fiscal year 2025, with early adoption permitted. We are currently evaluating the impact the updated standard will have on our financial statement disclosures.

- ASU 2023-09 "*Income Taxes*" (Topic 740): Improvements to Income Tax Disclosures

  In December 2023, the FASB issued an ASU that requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The updated standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions and applies to all entities subject to income taxes. The updated standard is effective for our annual periods beginning in fiscal year 2025 and interim periods beginning in the first quarter of fiscal year 2026, with early adoption permitted. We are currently evaluating the impact the updated standard will have on our financial statement disclosures.

3. Segment information

A. Background

The segment information provided in these condensed consolidated financial statements reflects the information that is used by the chief operating decision maker for the purposes of making decisions about allocating resources and in assessing the performance of each segment. The chief executive officer ("CEO") of Gates serves as the chief operating decision maker. These decisions are based on net sales and Adjusted EBITDA (defined below).

B. Operating segments and segment assets

Gates manufactures a wide range of power transmission and fluid power products and components for a large variety of industrial and automotive applications, both in the aftermarket and first-fit channels, throughout the world.

Our reportable segments are identified on the basis of our primary product lines, as this is the basis on which information is provided to the CEO for the purposes of allocating resources and assessing the performance of Gates' businesses. Our operating and reporting segments are therefore Power Transmission and Fluid Power.

Segment asset information is not provided to the chief operating decision maker and therefore segment asset information has not been presented. Due to the nature of Gates' operations, cash generation and profitability are viewed as the key measures rather than an asset-based measure.

C. Segment net sales and disaggregated net sales

Sales between reporting segments and the impact of such sales on Adjusted EBITDA for each segment are not included in internal reports presented to the CEO and have therefore not been included below.

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Power Transmission	$ 541.9	$ 573.9	$ 1,074.7	$ 1,122.0
Fluid Power	343.6	362.4	673.4	712.0
Continuing operations	**$ 885.5**	**$ 936.3**	**$ 1,748.1**	**$ 1,834.0**

Our commercial function is organized by region and therefore, in addition to reviewing net sales by our reporting segments, the CEO also reviews net sales information disaggregated by region, including between emerging and developed markets.

The following table summarizes our net sales by key geographic region of origin:

	Three months ended			
	June 29, 2024		July 1, 2023	
(dollars in millions)	Power Transmission	Fluid Power	Power Transmission	Fluid Power
U.S.	$ 143.9	$ 184.0	$ 155.6	$ 191.1
North America, excluding U.S.	62.3	53.3	56.5	55.9
United Kingdom ("U.K.")	9.9	18.9	13.8	19.7
EMEA[1], excluding U.K.	158.6	46.8	168.4	54.1
East Asia and India	66.6	19.9	70.7	20.2
Greater China	73.4	11.1	80.4	10.5
South America	27.2	9.6	28.5	10.9
Net sales	**$ 541.9**	**$ 343.6**	**$ 573.9**	**$ 362.4**

	Six months ended			
	June 29, 2024		July 1, 2023	
(dollars in millions)	Power Transmission	Fluid Power	Power Transmission	Fluid Power
U.S.	$ 284.9	$ 356.0	$ 300.4	$ 372.9
North America, excluding U.S.	125.4	103.8	111.3	107.7
U.K.	20.5	34.7	24.3	40.1
EMEA[1], excluding U.K.	311.6	98.8	336.1	108.0
East Asia and India	135.2	39.8	144.7	40.0
Greater China	142.1	21.5	150.4	21.8
South America	55.0	18.8	54.8	21.5
Net sales	**$ 1,074.7**	**$ 673.4**	**$ 1,122.0**	**$ 712.0**

[1] Europe, Middle East and Africa ("EMEA").

The following table summarizes our net sales into emerging and developed markets:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Developed	$ 572.5	$ 632.9	$ 1,129.5	$ 1,214.1
Emerging	313.0	303.4	618.6	619.9
Net sales	**$ 885.5**	**$ 936.3**	**$ 1,748.1**	**$ 1,834.0**

D. Measure of segment profit or loss

The CEO uses Adjusted EBITDA, as defined below, to measure the profitability of each segment. Adjusted EBITDA is, therefore, the measure of segment profit or loss presented in Gates' segment disclosures.

"EBITDA" represents net income from continuing operations for the period before net interest and other expense, income taxes, depreciation and amortization.

Adjusted EBITDA represents EBITDA before certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. During the periods presented, the items excluded from EBITDA in computing Adjusted EBITDA primarily included:

- non-cash charges in relation to share-based compensation;
- transaction-related expenses incurred in relation to major corporate transactions, including the acquisition of businesses and related integration activities, and equity and debt transactions;
- restructuring expenses, including severance-related expenses;

- credit loss related to a customer bankruptcy;
- cybersecurity incident expenses; and
- inventory adjustments related to certain inventories accounted for on a Last-in First-out (“LIFO”) basis.

Adjusted EBITDA by segment was as follows:

	Three months ended				Six months ended			
(dollars in millions)		June 29, 2024		July 1, 2023		June 29, 2024		July 1, 2023
Power Transmission	$	123.8	$	119.0	$	242.8	$	226.7
Fluid Power		78.4		78.3		155.0		145.1
Continuing operations	**$**	**202.2**	**$**	**197.3**	**$**	**397.8**	**$**	**371.8**

Reconciliation of net income from continuing operations to Adjusted EBITDA:

	Three months ended				Six months ended			
(dollars in millions)		June 29, 2024		July 1, 2023		June 29, 2024		July 1, 2023
Net income from continuing operations	$	77.9	$	71.3	$	124.1	$	102.2
Income tax expense		12.3		9.6		46.8		24.9
Income from continuing operations before taxes		**90.2**		**80.9**		**170.9**		**127.1**
Interest expense		49.1		44.5		86.6		85.3
Other (income) expenses		(3.1)		3.7		(4.6)		4.0
Operating income from continuing operations		**136.2**		**129.1**		**252.9**		**216.4**
Depreciation and amortization		54.5		54.0		109.1		108.5
Transaction-related expenses (1)		1.2		0.6		1.6		0.8
Restructuring expenses		1.6		2.2		2.8		7.7
Share-based compensation expense		5.2		6.8		13.8		16.3
Inventory impairments and adjustments (2) (included in cost of sales)		3.4		3.5		17.3		4.1
Severance expenses (included in cost of sales)		—		—		—		0.5
Severance expenses (included in SG&A)		—		0.3		0.1		0.9
Credit loss related to customer bankruptcy (included in SG&A) (3)		—		0.7		0.1		11.4
Cybersecurity incident expenses (4)		—		—		—		5.1
Other items not directly related to current operations (5)		0.1		0.1		0.1		0.1
Adjusted EBITDA	**$**	**202.2**	**$**	**197.3**	**$**	**397.8**	**$**	**371.8**

(1) Transaction-related expenses relate primarily to advisory fees and other costs recognized in respect of major corporate transactions, including the acquisition of businesses, and equity and debt transactions.

(2) Inventory impairments and adjustments include the reversal of the adjustment to remeasure certain inventories on a LIFO basis.

(3) On January 31, 2023, one of our customers filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In connection with the bankruptcy proceedings, we preliminarily evaluated our potential risk and exposure relating to our outstanding pre-petition accounts receivable balance from the customer and recorded an initial pre-tax charge to reflect our estimated recovery. Based on further developments in the bankruptcy proceedings, we recorded an additional $0.1 million pre-tax charge during the six months ended June 29, 2024. We will continue to monitor the circumstances surrounding the bankruptcy in determining whether adjustments to this recovery estimate are necessary.

(4) On February 11, 2023, Gates determined that it was the target of a malware attack. Cybersecurity incident expenses include legal, consulting, and other costs incurred as a direct result of this incident, some of which may be partially offset by insurance recoveries.

(5) Other items not directly related to current operations include asset impairment and other charges.

4. Restructuring and other strategic initiatives

Gates continues to undertake various restructuring and other strategic initiatives to drive increased productivity in all aspects of our operations. These actions include efforts to consolidate our manufacturing and distribution footprint, scale operations to current demand levels, streamline our selling, general and administrative ("SG&A") back-office functions and relocate certain operations to lower cost locations.

Overall costs associated with our restructuring and other strategic initiatives have been recognized in the condensed consolidated statements as set forth below. Expenses incurred in relation to certain of these actions qualify as restructuring expenses under U.S. GAAP.

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Restructuring expenses:				
—Severance expense (income)	$ 0.1	$ 0.3	$ (0.5)	$ 4.4
—Non-severance labor and benefit expenses	0.1	0.5	0.1	0.8
—Consulting expenses	0.5	0.4	1.5	0.9
—Other net restructuring expenses	0.9	1.0	1.7	1.6
Total restructuring expenses	**$ 1.6**	**$ 2.2**	**$ 2.8**	**$ 7.7**
Expenses related to other strategic initiatives:				
—Severance expenses included in cost of sales	—	—	—	0.5
—Severance expenses included in SG&A	—	0.3	0.1	0.9
Total expenses related to other strategic initiatives	**$ —**	**$ 0.3**	**$ 0.1**	**$ 1.4**

Restructuring and other strategic initiatives during the three and six months ended June 29, 2024 included $ 0.8 million and $1.6 million, respectively, of costs related to the relocation of certain production activities in Mexico. Other restructuring costs incurred during the three and six months ended June 29, 2024 included legal and consulting expenses, and costs associated with prior period facility closures or relocations in several countries.

Restructuring and other strategic initiatives during the three and six months ended July 1, 2023 related primarily to severance and other non-labor costs related to relocating certain production activities in China, Mexico and Europe. During the three months ended July 1, 2023, we also incurred additional labor and severance costs of $0.5 million, related to relocation and integration of certain support functions into our regional shared service center in Europe.

Restructuring activities

As indicated above, restructuring expenses, as defined under U.S. GAAP, form a subset of our total expenses related to restructuring and other strategic initiatives. These expenses include the impairment of inventory, which is recognized in cost of sales. Analyzed by segment, our restructuring expenses were as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Power Transmission	$ 0.5	$ 1.0	$ 0.8	$ 5.7
Fluid Power	1.1	1.2	2.0	2.0
Continuing operations	**$ 1.6**	**$ 2.2**	**$ 2.8**	**$ 7.7**

The following summarizes the reserve for restructuring expenses for the six months ended June 29, 2024 and July 1, 2023, respectively:

	Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023
Balance as of the beginning of the period	$ 5.1	$ 7.5
Utilized during the period	(5.4)	(8.3)
Charge for the period	3.5	8.1
Released during the period	(0.7)	(0.4)
Foreign currency translation	(0.1)	0.1
Balance as of the end of the period	**$ 2.4**	**$ 7.0**

Restructuring reserves, which are expected to be utilized during 2024 and 2025, are included in the condensed consolidated balance sheet within the accrued expenses and other current liabilities line.

5. Income taxes

We compute the year-to-date income tax provision by applying our estimated annual effective tax rate to our year-to-date pre-tax income and adjust for discrete tax items in the period in which they occur.

For the three months ended June 29, 2024, we had income tax expense of $ 12.3 million on pre-tax income of $90.2 million, which resulted in an effective tax rate of 13.6%, compared to an income tax expense of $ 9.6 million on pre-tax income of $80.9 million, which resulted in an effective tax rate of 11.9% for the three months ended July 1, 2023.

For the three months ended June 29, 2024, the effective tax rate was driven primarily by discrete tax benefits of $ 12.2 million, of which $13.8 million related to unrecognized tax benefits due to audit closures offset by $1.6 million of discrete expenses related to changes in the realizability of certain deferred tax assets. For the three months ended July 1, 2023, the effective tax rate was driven primarily by a discrete tax benefit of $6.4 million, of which $4.3 million related to the adjustments in various foreign jurisdictions in which returns were filed, and $ 1.8 million of net unrecognized tax benefits, primarily related to audit settlements in India.

For the six months ended June 29, 2024, we had an income tax expense of $ 46.8 million on pre-tax income of $170.9 million, which resulted in an effective tax rate of 27.4%, compared to an income tax expense of $ 24.9 million on pre-tax income of $127.1 million, which resulted in an effective tax rate of 19.6% for the six months ended July 1, 2023.

For the six months ended June 29, 2024, the net impact of discrete items was nominal, and the effective tax rate was driven primarily by jurisdictional mix of earnings. For the six months ended July 1, 2023, the net impact of discrete items was nominal, and the effective tax rate was driven primarily by jurisdictional mix of earnings.

Deferred Tax Assets and Liabilities

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred tax assets, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized.

As of each reporting date, we consider new evidence, both positive and negative, that could impact our view with regard to the future realization of deferred tax assets. We will maintain our positions with regard to future realization of deferred tax assets, including those with respect to which we continue maintaining valuation allowances, until there is sufficient new evidence to support a change in expectations. Such a change in expectations could arise due to many factors, including those impacting our forecasts of future earnings, as well as changes in the international tax laws under which we operate and tax planning. It is not reasonably possible to forecast any such changes at the present time, but it is possible that, should they arise, our view of their effect on the future realization of deferred tax assets may materially impact our financial statements.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined during the three months ended June 29, 2024 that it is more likely than not that deferred tax assets of $6.8 million, primarily in Poland, Mexico, and other jurisdictions, are not realizable. Accordingly, we recognized $4.1 million of discrete expense, while the remaining $ 2.7 million is recognized as part of the annual effective tax rate.

Similarly, we determined during the three months ended June 29, 2024 that is more likely than not that deferred tax assets of $ 3.7 million, primarily in Germany, are realizable. Accordingly, we recognized $2.5 million of discrete benefit, while the remaining $ 1.2 million benefit is recognized as part of the annual effective tax rate.

As a result of changes in future taxable profits and subsidiary structure, our position and judgment regarding the realizability of these deferred tax assets changed.

6. Earnings per share

Basic earnings per share represents net income attributable to shareholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share considers the dilutive effect of potential shares, unless the inclusion of the potential shares would have an anti-dilutive effect. The treasury stock method is used to determine the potential dilutive shares resulting from assumed exercises of equity-related instruments.

The computation of earnings per share is presented below:

	Three months ended		Six months ended	
(dollars in millions, except share numbers and per share amounts)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income attributable to shareholders	$ 70.7	$ 64.9	$ 110.7	$ 91.3
Weighted average number of shares outstanding	261,440,259	275,875,426	262,057,243	279,697,864
Dilutive effect of share-based awards	5,372,251	4,040,022	4,893,994	4,255,220
Diluted weighted average number of shares outstanding	**266,812,510**	**279,915,448**	**266,951,237**	**283,953,084**
Number of anti-dilutive shares excluded from the diluted earnings per share calculation	1,203,541	3,307,714	3,433,099	4,622,998
Basic earnings per share	$ 0.27	$ 0.24	$ 0.42	$ 0.33
Diluted earnings per share	$ 0.26	$ 0.23	$ 0.41	$ 0.32

7. Inventories

(dollars in millions)	As of June 29, 2024	As of December 30, 2023
Raw materials and supplies	$ 200.7	$ 168.2
Work in progress	47.0	43.3
Finished goods	448.8	435.7
Total inventories	**$ 696.5**	**$ 647.2**

8. Goodwill

(dollars in millions)	Power Transmission	Fluid Power	Total
Cost and carrying amount			
As of December 30, 2023	$ 1,338.5	$ 700.2	**$ 2,038.7**
Foreign currency translation	(49.2)	(23.0)	**(72.2)**
As of June 29, 2024	**$ 1,289.3**	**$ 677.2**	**$ 1,966.5**

9. Intangible assets

(dollars in millions)	As of June 29, 2024 Cost	Accumulated amortization and impairment	Net	As of December 30, 2023 Cost	Accumulated amortization and impairment	Net
Finite-lived:						
—Customer relationships	$ 1,958.3	$ (1,160.5)	**$ 797.8**	$ 2,003.6	$ (1,127.7)	**$ 875.9**
—Technology	90.5	(90.5)	**—**	90.6	(90.3)	**0.3**
—Capitalized software	123.6	(81.4)	**42.2**	117.3	(76.8)	**40.5**
	2,172.4	**(1,332.4)**	**840.0**	**2,211.5**	**(1,294.8)**	**916.7**
Indefinite-lived:						
—Brands and trade names	513.4	(44.0)	**469.4**	513.4	(44.0)	**469.4**
Total intangible assets	**$ 2,685.8**	**$ (1,376.4)**	**$ 1,309.4**	**$ 2,724.9**	**$ (1,338.8)**	**$ 1,386.1**

During the three months ended June 29, 2024, the amortization expense recognized in respect of intangible assets was $ 32.2 million, compared to $32.2 million for the three months ended July 1, 2023. In addition, movements in foreign currency exchange rates resulted in a decrease in the net carrying value of total intangible assets of $10.8 million for the three months ended June 29, 2024, compared to a decrease of $ 1.9 million for the three months ended July 1, 2023.

During the six months ended June 29, 2024, the amortization expense recognized in respect of intangible assets was $ 64.7 million, compared to $64.3 million for the six months ended July 1, 2023. In addition, movements in foreign currency exchange rates resulted in a decrease in the net carrying value of total intangible assets of $19.6 million for the six months ended June 29, 2024, compared to an increase of $ 7.3 million for the six months ended July 1, 2023.

10. Derivative financial instruments

We are exposed to certain financial risks relating to our ongoing business operations. From time to time, we use derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts, interest rate caps (options) and interest rate swaps, to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes and monitor closely the credit quality of the institutions with which we transact.

We recognize derivative instruments as either assets or liabilities in the condensed consolidated balance sheet. We designate certain of our currency swaps as net investment hedges and designate our interest rate caps and interest rate swaps as cash flow hedges. The gain or loss on the designated derivative instrument is recognized in other comprehensive income ("OCI") and reclassified into net income in the same period or periods during which the hedged transaction affects earnings.

Derivative instruments that have not been designated in an effective hedging relationship are considered economic hedges, and their change in fair value is recognized in net income in each period.

The period end fair values of derivative financial instruments were as follows:

(dollars in millions)	As of June 29, 2024 Prepaid expenses and other assets	Other non-current assets	Accrued expenses and other current liabilities	Other non-current liabilities	Net	As of December 30, 2023 Prepaid expenses and other assets	Other non-current assets	Accrued expenses and other current liabilities	Other non-current liabilities	Net
Derivatives designated as hedging instruments:										
—Currency swaps	$ 10.5	$ —	$ —	$ (53.8)	**$ (43.3)**	$ 8.5	$ —	$ —	$ (77.7)	**$ (69.2)**
—Interest rate swaps	32.3	2.3	(9.9)	(2.2)	**22.5**	29.9	11.8	(9.9)	(13.6)	**18.2**
Derivatives not designated as hedging instruments:										
—Currency forward contracts	2.3	—	(0.3)	—	**2.0**	3.9	—	(1.8)	—	**2.1**
	$ 45.1	**$ 2.3**	**$ (10.2)**	**$ (56.0)**	**$ (18.8)**	**$ 42.3**	**$ 11.8**	**$ (11.7)**	**$ (91.3)**	**$ (48.9)**

A. Instruments designated as net investment hedges

We hold cross currency swaps that have been designated as net investment hedges of certain of our European and Chinese operations. We hold USD-EUR cross currency swaps with a notional principal amount of €254.5 million and extended maturity date of March 31, 2027, and additional USD-EUR cross currency swaps with the notional principal amount of €501.6 million and contract term from November 16, 2022 to November 16, 2027. All USD-EUR cross currency swaps were designated as net investment hedges of certain of our European operations. In May 2023, we amended our €254.5 million USD-EUR cross currency swaps to transition from a floating rate based on the London Interbank Offered Rate (“LIBOR”) to a floating rate based on a term secured overnight financing rate (“Term SOFR”). In November 2023, we executed a USD to Chinese Yuan fixed-to-fixed cross currency swap with a notional principal amount of ¥1,784.0 million with a contract term from November 30, 2023 to November 30, 2026. This has been designated as a net investment hedge of certain of our Chinese operations. As of both June 29, 2024 and December 30, 2023, the aggregated notional principal amounts of the cross currency swaps were €756.1 million and ¥1,784.0 million.

The fair value gains (losses) before tax recognized in OCI in relation to the instruments designated as net investment hedging instruments were as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net fair value gains recognized in OCI in relation to:				
—Designated cross currency swaps	6.9	(9.9)	25.9	(22.1)
Total net fair value gains (losses)	**$ 6.9**	**$ (9.9)**	**$ 25.9**	**$ (22.1)**

During the three and six months ended June 29, 2024, a net gain of $ 1.1 million and $4.3 million, respectively, was recognized in interest expense in relation to our cross currency swaps that have been designated as net investment hedges, compared to a net gain of $2.5 million and $5.5 million, respectively, during the three and six months ended July 1, 2023.

B. Instruments designated as cash flow hedges

We use interest rate swaps and interest rate caps as part of our interest rate risk management strategy to add stability to interest expense and to manage our exposure to interest rate movements. These instruments are all designated as cash flow hedges. As of both June 29, 2024 and December 30, 2023, we held pay-fixed, receive-floating interest rate swaps with an aggregate notional amount of $1,255.0 million. Interest rate swaps with a notional amount of $870.0 million run from June 30, 2020 through June 30, 2025, while interest rate swaps with a notional amount of $ 385.0 million have the contract term from November 16, 2022 to November 16, 2027.

The movements before tax recognized in OCI in relation to our cash flow hedges were as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Movement recognized in OCI in relation to:				
—Fair value gain on cash flow hedges	$ 3.8	$ 23.6	$ 17.4	$ 13.6
—Amortization to net income of prior period fair value losses	—	4.4	—	8.9
—Deferred OCI reclassified to net income	(9.0)	(8.2)	(18.0)	(15.1)
Total movement	**$ (5.2)**	**$ 19.8**	**$ (0.6)**	**$ 7.4**

C. Derivative instruments not designated as hedging instruments

We do not designate our currency forward contracts, which are used primarily in respect of operational currency exposures related to payables, receivables and material procurement, or the currency swap contracts that are used to manage the currency profile of Gates’ cash as hedging instruments for the purposes of hedge accounting.

As of June 29, 2024 and December 30, 2023, there were no outstanding currency swaps.

As of June 29, 2024, the notional amount of outstanding currency forward contracts that are used to manage operational foreign exchange exposures was $140.7 million, compared to $140.8 million as of December 30, 2023.

The fair value gains recognized in net income in relation to derivative instruments that have not been designated as hedging instruments were as follows:

(dollars in millions)	Three months ended June 29, 2024	Three months ended July 1, 2023	Six months ended June 29, 2024	Six months ended July 1, 2023
Fair value gains recognized in relation to:				
—Currency forward contracts recognized in SG&A	$ 1.1	$ 2.9	$ 3.2	$ 4.1
Total	**$ 1.1**	**$ 2.9**	**$ 3.2**	**$ 4.1**

11. Fair value measurement

A. Fair value hierarchy

We account for certain assets and liabilities at fair value. Topic 820 “ *Fair Value Measurements and Disclosures*” establishes the following hierarchy for the inputs that are used in fair value measurement:

- “Level 1” inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- “Level 2” inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- “Level 3” inputs are not based on observable market data (unobservable inputs).

Assets and liabilities that are measured at fair value are categorized in one of the three levels on the basis of the lowest-level input that is significant to its valuation.

B. Financial instruments not held at fair value

Certain financial assets and liabilities are not measured at fair value; however, items such as cash and cash equivalents, restricted cash, drawings under revolving credit facilities and bank overdrafts generally attract interest at floating rates and accordingly their carrying amounts are considered to approximate fair value. Due to their short maturities, the carrying amounts of accounts receivable and accounts payable are also considered to approximate their fair values.

The carrying amount and fair value of our debt are set out below:

(dollars in millions)	As of June 29, 2024 Carrying amount	As of June 29, 2024 Fair value	As of December 30, 2023 Carrying amount	As of December 30, 2023 Fair value
Current	$ 21.8	$ 21.6	$ 36.5	$ 36.5
Non-current	2,310.3	2,341.3	2,415.0	2,444.7
	$ 2,332.1	**$ 2,362.9**	**$ 2,451.5**	**$ 2,481.2**

Debt is comprised principally of borrowings under the secured credit facilities and the unsecured senior notes. The two dollar term loans under the secured credit facilities pay interest at floating rates, subject to a 0.50% Term SOFR floor as further described in Note 12. The fair values of the term loans are derived from a market price, discounted for illiquidity. The unsecured senior notes have fixed interest rates, are traded by “Qualified Institutional Buyers” and certain other eligible investors, and their fair value is derived from their quoted market price.

C. Assets and liabilities measured at fair value on a recurring basis

The following table categorizes the assets and liabilities that are measured at fair value on a recurring basis:

(dollars in millions)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Total
As of June 29, 2024			
Derivative assets	$ —	$ 47.4	**$ 47.4**
Derivative liabilities	$ —	$ (66.2)	**$ (66.2)**
Cash equivalents	$ —	$ 30.2	**$ 30.2**
Available for sale investments	$ —	$ 5.0	**$ 5.0**
As of December 30, 2023			
Derivative assets	$ —	$ 54.1	**$ 54.1**
Derivative liabilities	$ —	$ (103.0)	**$ (103.0)**
Cash equivalents	$ 76.2	$ 52.8	**$ 129.0**
Available for sale investments	$ —	$ —	**$ —**

Derivative assets and liabilities included in Level 2 represent foreign currency exchange forward and swap contracts, and interest rate derivative contracts. Cash equivalents included in Level 1 represent treasury bills and money market funds, while Level 2 represent certificates of deposit and commercial paper. Available for sale investments included in the Level 2 represent our investments in corporate bonds in Argentina.

We value our foreign currency exchange derivatives using models consistent with those used by a market participant that maximize the use of market observable inputs including forward prices for currencies.

We value our interest rate derivative contracts using a widely accepted discounted cash flow valuation methodology that reflects the contractual terms of each derivative, including the period to maturity. The methodology derives the fair values of the derivatives using the market standard methodology of netting the discounted future cash payments and the discounted expected receipts. The inputs used in the calculation are based on observable market-based inputs, including interest rate curves, implied volatilities and credit spreads.

We incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Transfers between levels of the fair value hierarchy

During the periods presented, there were no transfers between Levels 1 and 2, and Gates had no assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

D. Assets measured at fair value on a non-recurring basis

Gates has non-recurring fair value measurements related to certain assets, including goodwill, intangible assets, and property, plant, and equipment. No significant impairment was recognized during the three and six months ended June 29, 2024 and July 1, 2023. During April 2024, Gates made a $5.0 million equity investment in a privately held company. Gates does not have the ability to exercise significant influence over the investee and the investment does not have a readily determinable fair value. We elected to recognize the investment at its cost in accordance with ASC 321 "*Investments – Equity Securities"* and will adjust the fair value of the investment if we identify any observable price changes in orderly transactions.

12. Debt

(dollars in millions)	As of June 29, 2024	As of December 30, 2023
Secured debt:		
—2024 Dollar Term Loans due June 4, 2031	$ 1,300.0	$ —
—2022 Dollar Term Loans due November 16, 2029	564.9	567.8
—2021 Dollar Term Loans due November 16, 2029	—	1,336.1
Unsecured debt:		
—6.875% Dollar Senior Notes due July 1, 2029	500.0	—
—6.250% Dollar Senior Notes due January 16, 2026	—	568.0
Total principal of debt	**2,364.9**	**2,471.9**
Deferred issuance costs	(35.9)	(37.4)
Accrued interest	3.1	17.0
Total carrying value of debt	**2,332.1**	**2,451.5**
Debt, current portion	21.8	36.5
Debt, less current portion	**$ 2,310.3**	**$ 2,415.0**

Gates' secured debt is jointly and severally, irrevocably and fully and unconditionally guaranteed by certain of its subsidiaries and is secured by liens on substantially all of their assets.

Gates is subject to covenants, representations and warranties under certain of its debt facilities. During the periods covered by these condensed consolidated financial statements, we were in compliance with the applicable financial covenants. Also under the agreements governing our debt facilities, our ability to engage in activities such as incurring certain additional indebtedness, making certain investments and paying certain dividends is dependent, in part, on our ability to satisfy tests based on measures determined under those agreements.

Debt issuances and redemptions

On June 4, 2024, we entered into an amendment to our credit agreement governing our term loan facilities and our secured revolving credit facility. As part of this amendment, we issued a new tranche of $1,300.0 million of dollar-denominated term loans (the "2024 Dollar Term Loans") and used the proceeds to extinguish the entire outstanding principal balance of dollar-denominated term loans of $1,232.6 million, which was issued on February 24, 2021 (the "2021 Dollar Term Loans"), plus $1.1 million of accrued interest. We issued the 2024 Dollar Term Loans with no discount and incurred third party costs totaling approximately $9.5 million, which have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method. The 2024 Dollar Term Loans require a prepayment premium in connection with certain repricing transactions occurring within six months following the closing of the amendment. The repayment of our 2021 Dollar Term Loans resulted in the accelerated recognition of $11.2 million of deferred issuance costs (recognized in interest expense).

Under the credit agreement amendment, we also repriced our dollar-denominated term loans drawn on November 16, 2022 (the "2022 Dollar Term Loans"), reducing the interest rate spread by 75 basis points from Term SOFR plus 3.00% to Term SOFR plus 2.25%. Third party costs of $0.9 million incurred with the 2022 Dollar Term Loans repricing were recognized in interest expense.

Additionally, in connection with the amendment to our credit agreement, we increased borrowing capacity under our revolving credit facility from $250.0 million to $500.0 million and extended the maturity from November 18, 2026 to the date that is the earliest of (x) June 4, 2029 and (y) April 1, 2029, if greater than $500.0 million in aggregate principal amount of the 2024 Unsecured Notes (as defined below) are outstanding. We incurred associated third party costs of approximately $2.5 million, which have been deferred and will be amortized to interest expense over the remaining term of the revolving credit facility. Concurrently with this amendment, we terminated the $250.0 million asset-backed revolving credit facility governed by the second amended and restated credit agreement dated as of November 18, 2021. The termination of our asset-backed revolving credit facility resulted in the accelerated recognition of $1.0 million of deferred issuance costs (recognized in interest expense).

On June 4, 2024, we also issued new unsecured senior notes of $ 500.0 million (the “2024 Unsecured Senior Notes”), and fully redeemed our existing unsecured senior notes due 2026 (the “2019 Unsecured Senior Notes”) of $568.0 million aggregate principal amount, which included the payment of $13.7 million of accrued interest thereon. We issued the 2024 Unsecured Senior Notes with no discount and incurred third party costs of approximately $7.6 million, which have been deferred and will be amortized to interest expense over the remaining term of the 2024 Unsecured Senior Notes using the effective interest method. The redemption of our 2019 Unsecured Senior Notes resulted in the accelerated recognition of $2.6 million of deferred issuance costs (recognized in interest expense).

During February 2024, we made a voluntary principal debt repayment of $ 100.0 million against our 2021 Dollar Term Loans (as defined below). As a result of this repayment, we accelerated the recognition of $1.0 million of deferred issuance costs (recognized in interest expense).

During May 2023, we drew $ 100.0 million under our former asset-backed revolving credit facility to partially fund the purchase of shares under our 2023 share repurchase program. During fiscal year 2023 we paid down the borrowings on the asset-backed revolver and had no outstanding borrowings as of June 29, 2024 and December 30, 2023. As of December 30, 2023, the letters of credit outstanding under this facility were $29.7 million. As discussed above, this facility was terminated on June 4, 2024.

Dollar Term Loans

Our secured credit facilities consist of two loans, which include the 2024 Dollar Term Loans and the 2022 Dollar Term Loans described above. These term loan facilities bear interest at a floating rate, at our option, at either a base rate as defined in the credit agreement plus an applicable margin, or Term SOFR plus an applicable margin.

The 2024 Dollar Term Loans’ interest rate is currently Term SOFR, subject to a floor of 0.50%, plus a margin of 2.25%, and as of June 29, 2024, borrowings under this facility bore interest at a rate of 7.59% per annum. The interest rate is currently re-set on the last business day of each month based on the election of one month interest periods. The 2024 Dollar Term Loans mature on June 4, 2031.

The 2022 Dollar Term Loans’ interest rate as of June 29, 2024 was Term SOFR, subject to a floor of 0.50%, plus a margin of 2.25%, and as of June 29, 2024, borrowings under this facility bore interest at a rate of 7.59% per annum. The 2022 Dollar Term Loans’ interest rate is currently re-set on the last business day of each month based on the election of one month interest periods. The 2022 Dollar Term Loans mature on November 16, 2029.

The 2022 Dollar Term Loans and the 2024 Dollar Term Loans are subject to quarterly amortization payments of 0.25%, based on the original principal amount less certain repayments with the balance payable on maturity. During the six months ended June 29, 2024, we made amortization payments against the 2021 Dollar Term Loans, the 2024 Dollar Term Loans and the 2022 Dollar Term Loans of $3.4 million, $0.0 million and $2.9 million, respectively.

Under the terms of the credit agreement, we are obliged to offer annually to the term loan lenders an “excess cash flow” amount as defined under the credit agreement, based on the preceding year’s final results. Based on our 2023 results, the leverage ratio as defined under the credit agreement was below the threshold above which payments are required, and therefore no excess cash flow payment is required to be made in 2024.

Gates Corporation, a wholly-owned U.S. subsidiary of Gates Industrial Holdco Limited (the parent guarantor and direct subsidiary of Gates Industrial Corporation plc), is the principal obligor under the term loans for U.S. federal income tax purposes and makes the payments due on this tranche of debt. As a result, interest received by lenders of this tranche of debt is U.S. source income.

2024 Unsecured Senior Notes

As of June 29, 2024, we had $ 500.0 million of 2024 Senior Notes outstanding that were issued on June 4, 2024. The 2024 Unsecured Senior Notes are scheduled to mature on July 1, 2029 and bear interest at an annual fixed rate of 6.875% with semi-annual interest payments.

Prior to July 1, 2026, we may redeem the 2024 Unsecured Senior Notes, at our option, in whole at any time or in part from time to time, at a “make-whole” redemption price. In addition, on or subsequent to July 1, 2026, we may redeem the 2024 Unsecured Senior Notes, at our option, in whole at any time or in part from time to time, at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest to the redemption date:

	Redemption price
On or subsequent to:	
—July 1, 2026	103.438 %
—July 1, 2027	101.719 %
—July 1, 2028 and thereafter	100.000 %

Additionally, net cash proceeds from an equity offering can be utilized at any time prior to July 1. 2026, to redeem up to 40% of the 2024 Unsecured Senior Notes at a redemption price equal to 106.875% of the principal amount thereof, plus accrued and unpaid interest through to the redemption date.

Upon the occurrence of specified types of change of control or of certain qualifying asset sales, the holders of the 2024 Unsecured Senior Notes will have the right to require us to make an offer to repurchase each holder's notes at a price equal to 101% (in the case of a change of control offer) or 100% (in the case of an asset sale offer) of their principal amount, plus accrued and unpaid interest.

As noted above, on June 4, 2024, we redeemed all $568.0 million in aggregate principal amount of our 2019 Unsecured Senior Notes.

Revolving credit facility

We have a secured revolving credit facility that provides for multi-currency revolving loans. On June 4, 2024, we amended the credit agreement governing this facility to increase the size of the facility from $250.0 million to $500.0 million, and extended the maturity date from November 18, 2026 to the date that is the earliest of (x) June 4, 2029 and (y) April 1, 2029, if greater than $500.0 million in aggregate principal amount of the 2024 Unsecured Senior Notes are outstanding. This facility also includes a letter of credit sub-facility of $150.0 million. The letters of credit outstanding under this facility were $28.3 million and $0.0 million as of June 29, 2024 and December 30, 2023, respectively.

As of both June 29, 2024 and December 30, 2023, there were no drawings for cash under the revolving credit facility.

Debt under the revolving credit facility bears interest at a floating rate, at our option, at either a base rate as defined in the credit agreement plus an applicable margin or the reference rate plus an applicable margin.

In addition, Gates had other outstanding performance bonds, letters of credit and bank guarantees amounting to $8.5 million as of June 29, 2024, compared to $8.4 million as of December 30, 2023.

13. Post-retirement benefits

Gates provides defined benefit pension plans in certain of the countries in which it operates, in particular, in the U.S. and U.K. All of the defined benefit pension plans are closed to new entrants. In addition to the funded defined benefit pension plans, Gates has unfunded defined benefit obligations to certain current and former employees.

Gates also provides other post-retirement benefits, principally health and life insurance coverage, on an unfunded basis to certain of its employees in the U.S. and Canada.

Net periodic benefit cost (income)

The components of the net periodic benefit cost (income) for pensions and other post-retirement benefits were as follows:

	Three months ended June 29, 2024			Three months ended July 1, 2023		
(dollars in millions)	Pensions	Other post-retirement benefits	Total	Pensions	Other post-retirement benefits	Total
Reported in operating income:						
—Employer service cost	$ 1.0	$ —	**$ 1.0**	$ 0.9	$ —	**$ 0.9**
Reported outside of operating income:						
—Interest cost	6.1	0.3	**6.4**	6.3	0.3	**6.6**
—Expected return on plan assets	(6.4)	—	**(6.4)**	(6.6)	—	**(6.6)**
—Net amortization of prior period losses (gains)	0.2	(0.8)	**(0.6)**	(0.1)	(0.7)	**(0.8)**
Net periodic benefit cost (income)	**$ 0.9**	**$ (0.5)**	**$ 0.4**	**$ 0.5**	**$ (0.4)**	**$ 0.1**
Cash Contributions	$ 1.6	$ 0.7	**$ 2.3**	$ 1.6	$ 0.8	**$ 2.4**

	Six months ended June 29, 2024			Six months ended July 1, 2023		
(dollars in millions)	Pensions	Other post-retirement benefits	Total	Pensions	Other post-retirement benefits	Total
Reported in operating income:						
—Employer service cost	$ 2.0	$ —	**$ 2.0**	$ 1.9	$ —	**$ 1.9**
Reported outside of operating income:						
—Interest cost	12.2	0.6	**12.8**	12.5	0.7	**13.2**
—Expected return on plan assets	(12.9)	—	**(12.9)**	(13.0)	—	**(13.0)**
—Net amortization of prior period losses (gains)	0.4	(1.6)	**(1.2)**	(0.1)	(1.6)	**(1.7)**
Net periodic benefit cost (income)	**$ 1.7**	**$ (1.0)**	**$ 0.7**	**$ 1.3**	**$ (0.9)**	**$ 0.4**
Cash Contributions	$ 3.2	$ 1.7	**$ 4.9**	$ 3.7	$ 1.9	**$ 5.6**

The components of the above net periodic benefit cost (income) for pensions and other post-retirement benefits that are reported outside of operating income are all included in the other (income) expense line in the condensed consolidated statement of operations.

For 2024 as a whole, we expect to contribute approximately $ 7.3 million to our defined benefit pension plans and approximately $ 3.0 million to our other post-retirement benefit plans.

14. Share-based compensation

The Company operates a share-based incentive plan over its shares to provide incentives to Gates' senior executives and other eligible employees. During the three and six months ended June 29, 2024, we recognized a charge of $5.2 million and $13.8 million, respectively, compared to $6.8 million and $16.3 million, respectively, in the three and six months ended July 1, 2023.

Awards issued under the 2014 Gates Industrial Corporation plc Stock Incentive Plan (the "2014 Plan")

Gates has a number of share-based incentive awards issued under the 2014 Plan, which was assumed by the Company and renamed the Gates Industrial Corporation plc Stock Incentive Plan in connection with our initial public offering in January 2018 (our "IPO"). No new awards have been granted under this plan since 2017. The options granted prior to our IPO were split equally into four tiers, each with specific vesting conditions. Tier I options vest evenly over 5 years from the grant date, subject to the participant continuing to provide service to Gates on the vesting date. Tier II, III and IV options vest on achievement of specified investment returns by certain investment funds affiliated with Blackstone Inc. ("Blackstone" or our "Sponsor") at the time of a defined liquidity event, which is also subject to the participant's continued provision of service to Gates on the vesting date. The performance conditions associated with Tiers II, III and IV must have been achieved on or prior to July 3, 2022 in order for vesting to occur. All the options expire ten years after the date of grant.

During March 2022, a liquidity event as defined occurred following the sale by Blackstone of a certain portion of their interest in Gates and the Tier II and IV options vested as the specified investment returns related to these options had been met. On July 3, 2022, the performance period for the Tier III options expired and, as the specified investment returns were not achieved, all Tier III awards expired during fiscal year 2022.

Due to Chinese regulatory restrictions on foreign stock ownership, awards granted under this plan to Chinese employees have been issued as stock appreciation rights (“SARs”). The terms of these SARs are identical to those of the options described above with the exception that no share is issued on exercise; instead, cash equivalent to the increase in the value of the shares from the date of grant to the date of exercise is paid to the employee. These awards are therefore treated as liability awards under Topic 718 “*Compensation - Stock Compensation*” and are revalued to their fair value at each period end. The SARs include option awards with the same vesting terms as the Tier II, III and IV option awards described above, and, due to the vesting event described above. All Tier III SARs expired on July 3, 2022 as the specific performance hurdle was not achieved.

Changes in the awards granted under this plan are summarized in the tables below.

Awards issued under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (the “2018 Plan”)

In conjunction with the initial public offering in January 2018, Gates adopted the 2018 Plan, which is a market-based long-term incentive program that allows for the issue of a variety of equity-based and cash-based awards, including stock options, SARs and restricted stock units (“RSUs”).

The SARs issued under this plan take the form of options, except that no share is issued on exercise; instead, cash equivalent to the increase in the value of the shares from the date of grant to the date of exercise is paid to the employee. These awards are therefore treated as liability awards under Topic 718 “*Compensation - Stock Compensation*” and are revalued to their fair value at each period end. The SARs and the majority of the share options issued under this plan vest evenly over either three years or four years from the grant date. The remainder of the options, the premium-priced options, vest evenly over a three-year period, starting two years from the grant date. All options vest subject to the participant’s continued employment by Gates on the vesting date and expire ten years after the date of grant.

The RSUs issued under the plan consist of time-vesting RSUs and performance-based RSUs (“PRSUs”). The time-vesting RSUs vest evenly over either one or three years from the date of grant, subject to the participant’s continued provision of service to Gates on the vesting date. The PRSUs issued prior to 2022 provide that 50% of the award will generally vest if Gates achieves a certain level of average annual adjusted return on invested capital as defined in the plan (“Adjusted ROIC”) and the remaining 50% of the PRSUs will generally vest if Gates achieves certain relative total shareholder return (“Relative TSR”) goals, in each case, measured over a three-year performance period and subject to the participant’s continued employment through the end of the performance period. The total number of PRSUs that vest at the end of the performance period will range from 0% to 200% of the target based on actual performance against a pre-established scale. Starting in Fiscal 2022, the terms for PRSUs are identical, except that 75% of the award will generally vest based on the specified Adjusted ROIC achievement and the remaining 25% will generally vest based on Relative TSR goal attainment.

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New awards and movements in existing awards granted under this plan are summarized in the tables below.

Summary of movements in options outstanding

		Six months ended June 29, 2024		
	Plan	Number of options		Weighted average exercise price $
Outstanding at the beginning of the period:				
—Tier I	*2014 Plan*	1,828,327	$	6.98
—Tier II	*2014 Plan*	1,996,017	$	7.01
—Tier IV	*2014 Plan*	1,986,416	$	10.52
—SARs	*Both plans*	735,221	$	10.47
—Share options	*2018 Plan*	2,345,520	$	14.90
—Premium-priced options	*2018 Plan*	835,469	$	18.88
		9,726,970	**$**	**10.90**
Granted during the period:				
—SARs	*2018 Plan*	22,100	$	14.87
		22,100	**$**	**14.87**
Forfeited during the period:				
—SARs	*2018 Plan*	(3,535)	$	13.50
		(3,535)	**$**	**13.50**
Expired during the period:				
—Share options	*2018 Plan*	(25,000)	$	16.08
		(25,000)	**$**	**16.08**
Exercised during the period:				
—Tier I	*2014 Plan*	(95,254)	$	6.80
—Tier II	*2014 Plan*	(101,742)	$	6.82
—Tier IV	*2014 Plan*	(98,882)	$	10.19
—SARs	*Both Plans*	(134,766)	$	9.23
—Share options	*2018 Plan*	(339,737)	$	14.11
		(770,381)	**$**	**10.89**
Outstanding at the end of the period:				
—Tier I	*2014 Plan*	1,733,073	$	6.99
—Tier II	*2014 Plan*	1,894,275	$	7.02
—Tier IV	*2014 Plan*	1,887,534	$	10.54
—SARs	*Both plans*	619,020	$	10.88
—Share options	*2018 Plan*	1,980,783	$	15.02
—Premium-priced options	*2018 Plan*	835,469	$	18.88
		8,950,154	**$**	**10.90**
Exercisable at the end of the period		8,870,012	$	10.86
Vested and expected to vest at the end of the period		8,949,442	$	10.89

As of June 29, 2024, the aggregate intrinsic value of options that were exercisable was $ 47.5 million, and these options had a weighted average remaining contractual term of 2.7 years. As of June 29, 2024, the aggregate intrinsic value of options that were vested or expected to vest was $47.6 million, and these options had a weighted average remaining contractual term of 2.7 years.

As of June 29, 2024, the unrecognized compensation charge relating to the nonvested options was $ 0.3 million, which is expected to be recognized over a weighted-average period of 1.9 years.

During the three and six months ended June 29, 2024, cash of $ 4.6 million and $7.1 million was received in relation to the exercise of vested options, respectively, compared to $5.4 million and $16.7 million during the three and six months ended July 1, 2023, respectively. The aggregate intrinsic value of options exercised during the three and six months ended June 29, 2024 was $0.9 million and $2.7 million, respectively, compared to $1.0 million and $5.0 million during the three and six months ended July 1, 2023, respectively.

Summary of movements in RSUs and PRSUs outstanding

	Six months ended June 29, 2024	
	Number of awards	Weighted average grant date fair value $
Outstanding at the beginning of the period:		
—RSUs	3,032,230	$ 13.78
—PRSUs	917,661	$ 16.77
	3,949,891	**$ 14.47**
Granted during the period:		
—RSUs	1,174,252	$ 14.91
—PRSUs	426,607	$ 16.37
	1,600,859	**$ 15.30**
Forfeited during the period:		
—RSUs	(113,093)	$ 14.10
—PRSUs	(120,458)	$ 15.59
	(233,551)	**$ 14.87**
Vested during the period:		
—RSUs	(873,044)	$ 14.83
—PRSUs	(154,274)	15.00
	(1,027,318)	**$ 14.86**
Outstanding at the end of the period:		
—RSUs	3,220,345	$ 13.89
—PRSUs	1,069,536	$ 17.00
	4,289,881	**$ 14.67**

As of June 29, 2024, the unrecognized compensation charge relating to unvested RSUs and PRSUs was $ 22.0 million, which is expected to be recognized over a weighted average period of 1.7 years, subject, where relevant, to the achievement of the performance conditions described above. The total fair value of RSUs and PRSUs vested during the three and six months ended June 29, 2024 was $0.2 million and $15.3 million, respectively, compared to $0.6 million and $15.3 million during the three and six months ended July 1, 2023, respectively.

Valuation of awards granted during the period

The grant date fair value of the SARs are measured using a Black-Scholes valuation model. RSUs are valued at the share price on the date of grant. The Relative TSR component of the PRSUs were valued using Monte Carlo simulations. As Gates only has volatility data for its shares for the period since its IPO, this volatility has, where necessary, been weighted with the debt-levered volatility of a peer group of public companies in order to determine the expected volatility over the expected option life. The expected option life represents the period of time for which the options are expected to be outstanding and is based on consideration of the contractual life of the option, option vesting period, and historical exercise patterns. The weighted average fair values and relevant assumptions were as follows:

	Six months ended	
	June 29, 2024	July 1, 2023
Weighted average grant date fair value:		
—SARs	$ 6.95	$ 6.71
—RSUs	$ 14.91	$ 14.06
—PRSUs	$ 16.37	$ 15.88
Inputs to the model:		
—Expected volatility — SARs	41.7 %	43.4 %
—Expected volatility — PRSUs	31.6 %	37.7 %
—Expected option life for SARs (years)	6.0	6.0
—Risk-free interest rate:		
SARs	4.2 %	4.1 %
PRSUs	4.4 %	4.6 %

15. Equity

Movements in the Company’s number of shares in issue for the six months ended June 29, 2024 and July 1, 2023, respectively, were as follows:

	Six months ended	
(number of shares)	June 29, 2024	July 1, 2023
Balance as of the beginning of the period	264,259,788	282,578,917
Exercise of share options	635,615	2,104,358
Vesting of restricted stock units, net of withholding taxes	857,681	937,102
Shares repurchased and cancelled	(4,151,100)	(21,934,634)
Balance as of the end of the period	**261,601,984**	**263,685,743**

The Company has one class of authorized and issued shares, with a par value of $ 0.01, and each share has equal voting rights.

In February 2024, the Company’s Board approved a share repurchase program for up to $ 100.0 million in authorized share repurchases, which expires on October 6, 2024. On February 12, 2024, the Company, certain selling shareholders affiliated with Blackstone, and the representatives of the several underwriters entered into an underwriting agreement pursuant to which the selling shareholders agreed to sell to the underwriters 17,500,000 ordinary shares of the Company at a price of $12.045 per ordinary share (the “February 2024 Offering”). The selling shareholders also granted the underwriters an option to purchase up to 2,625,000 additional ordinary shares of the Company; this option was exercised in full on February 16, 2024. The Company did not receive any proceeds from the sale of ordinary shares in the February 2024 Offering, which closed on February 16, 2024. In connection with the February 2024 Offering, the Company repurchased 4,151,100 ordinary shares through Citigroup Global Markets Inc. from the same selling shareholders at a price of $12.045 per ordinary share for an aggregate consideration of approximately $ 50.0 million (the “2024 Repurchase”), plus costs paid directly related to the transaction of $0.3 million. This repurchase was funded by cash on hand. All shares repurchased pursuant to the 2024 Repurchase have been cancelled.

In July 2024, the Company's Board cancelled its existing share repurchase program and approved a new share repurchase program, providing for up to $250.0 million in share repurchases, which expires on December 31, 2025.

16. Analysis of accumulated other comprehensive (loss) income

Changes in accumulated other comprehensive (loss) income by component, net of tax, were as follows:

(dollars in millions)	Post- retirement benefits	Cumulative translation adjustment	Cash flow hedges	Accumulated OCI attributable to shareholders	Non-controlling interests	Accumulated OCI
As of December 30, 2023	$ (15.3)	$ (832.3)	$ 19.1	**$ (828.5)**	$ (78.4)	**$ (906.9)**
Foreign currency translation	(0.1)	(119.0)	—	**(119.1)**	(19.5)	**(138.6)**
Cash flow hedges movements	—	—	(0.5)	**(0.5)**	—	**(0.5)**
Post-retirement benefit movements	(0.9)	—	—	**(0.9)**	—	**(0.9)**
Other comprehensive loss	**(1.0)**	**(119.0)**	**(0.5)**	**(120.5)**	**(19.5)**	**(140.0)**
As of June 29, 2024	**$ (16.3)**	**$ (951.3)**	**$ 18.6**	**$ (949.0)**	**$ (97.9)**	**$ (1,046.9)**

(dollars in millions)	Post- retirement benefits	Cumulative translation adjustment	Cash flow hedges	Accumulated OCI attributable to shareholders	Non-controlling interests	Accumulated OCI
As of December 31, 2022	$ 0.6	$ (950.0)	$ 31.6	**$ (917.8)**	$ (64.6)	**$ (982.4)**
Foreign currency translation	(3.2)	90.8	—	**87.6**	(23.6)	**64.0**
Cash flow hedges movements	—	—	5.6	**5.6**	—	**5.6**
Post-retirement benefit movements	(1.3)	—	—	**(1.3)**	—	**(1.3)**
Other comprehensive (loss) income	**(4.5)**	**90.8**	**5.6**	**91.9**	**(23.6)**	**68.3**
As of July 1, 2023	**$ (3.9)**	**$ (859.2)**	**$ 37.2**	**$ (825.9)**	**$ (88.2)**	**$ (914.1)**

17. Related party transactions

A. Entities affiliated with Blackstone

In connection with the initial public offering of Gates, we entered into a Support and Services Agreement with Blackstone Management Partners L.L.C. ("BMP") under which the Company and certain of its direct and indirect subsidiaries reimburse BMP for customary support services provided by Blackstone's portfolio operations group to the Company at BMP's direction. BMP will invoice the Company for such services based on the time spent by the relevant personnel providing such services during the applicable period and Blackstone's allocated costs of such personnel. During the periods presented, no amounts were paid or were outstanding under this agreement. This agreement terminates on the date our Sponsor beneficially owns less than 5% of our ordinary shares and such shares have a fair market value of less than $ 25.0 million, or such earlier date as may be chosen by Blackstone.

As described in Note 15, in February 2024, the Company repurchased 4,151,100 ordinary shares through Citigroup Global Markets Inc. from certain shareholders affiliated with Blackstone for an aggregate consideration of $50.0 million, plus costs paid directly related to the transaction of $ 0.3 million.

B. Equity method investees

Purchases from equity method investees were as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Purchases	$ (3.9)	$ (4.1)	$ (7.9)	$ (9.2)

Amounts outstanding in respect of these transactions were payables of $ 0.1 million as of June 29, 2024, compared to $ 0.2 million as of December 30, 2023. No dividends were received from our equity method investees during the periods presented.

C. Non-Gates entities controlled by non-controlling shareholders

Sales to and purchases from non-Gates entities controlled by non-controlling shareholders were as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Sales	$ 9.8	$ 11.8	$ 19.4	$ 25.1
Purchases	$ (3.5)	$ (4.0)	$ (7.2)	$ (8.4)

Amounts outstanding in respect of these transactions were as follows:

(dollars in millions)	As of June 29, 2024	As of December 30, 2023
Receivables	$ 4.1	$ 3.2
Payables	$ (2.9)	$ (3.2)

18. Commitments and contingencies

A. Contingencies

Gates is, from time to time, party to general legal proceedings and claims, which arise in the ordinary course of business. Gates is also, from time to time, party to legal proceedings and claims in respect of environmental obligations, product liability, intellectual property, commercial and contractual disputes, employment matters and other matters which arise in the ordinary course of business and against which management believes Gates has meritorious defenses available. When appropriate, management consults with legal counsel and other appropriate experts to assess claims. If, in management's opinion, we have incurred a probable loss as set forth by U.S. GAAP, an estimate is made of the loss and the appropriate accrual is reflected in our consolidated financial statements. Currently, there are no material amounts accrued.

While it is not possible to quantify the financial impact or predict the outcome of all pending claims and litigation, management does not anticipate that the outcome of any current proceedings or known claims, either individually or in aggregate, will materially affect Gates' financial position, results of operations or cash flows.

B. Warranties

The following summarizes the movements in the warranty liability for the six months ended June 29, 2024 and July 1, 2023, respectively:

	Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023
Balance as of the beginning of the period	$ 15.9	$ 17.6
Charge for the period	4.7	4.0
Payments made	(4.4)	(4.1)
Released during the period	—	(0.1)
Foreign currency translation	(0.2)	(0.3)
Balance as of the end of the period	**$ 16.0**	**$ 17.1**

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and related notes thereto included elsewhere in this quarterly report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management’s expectations. Factors that could cause such differences are discussed in “Cautionary Note Regarding Forward-Looking Statements” above and Part I, Item 1A. “Risk Factors” in our annual report.

Our Company

We are a global manufacturer of innovative, highly engineered power transmission and fluid power solutions. We offer a broad portfolio of products to diverse replacement channel customers, and to original equipment manufacturers (“first-fit”) as specified components, with the majority of our revenue coming from replacement channels. Our products are used in applications across numerous end markets, including: automotive replacement and first-fit; diversified industrial; industrial off-highway; industrial on-highway; and personal mobility. Our net sales have historically been, and remain, highly correlated with industrial activity and utilization, and not with any single end market given the diversification of our business and high exposure to replacement markets. We sell our products globally under the Gates brand, which is recognized by distributors, equipment manufacturers, installers and end users as a premium brand for quality and technological innovation; this reputation has been built over more than 110 years since Gates’ founding in 1911.

Within the diverse end markets we serve, our highly engineered products are often critical components in applications for which the cost of downtime is high relative to the cost of our products, resulting in the willingness of end users to pay a premium for superior performance and availability. These applications subject our products to normal wear and tear, resulting in natural, and often preventative, replacement cycles that drive high-margin, recurring revenue. Our product portfolio represents one of the broadest ranges of power transmission and fluid power products in the markets we serve, and we maintain long-standing relationships with a diversified group of well-known customers throughout the world. As a leading designer, manufacturer and marketer of highly engineered, mission-critical products, we have become an industry leader across most of our end markets and the regions in which we operate.

Business Trends

Our net sales have historically been, and remain, highly correlated with industrial activity and utilization and not with any single end market given the diversification of our business and high exposure to replacement channels. This diversification limits our exposure to trends in any given end market. In addition, a majority of our sales are generated from customers in replacement channels, who serve primarily a large base of installed equipment that follows a natural maintenance cycle that is somewhat less susceptible to various trends that affect our end markets. Such trends include infrastructure investment and construction activity, agricultural production and related commodity prices, commercial and passenger vehicle production, miles driven and fleet age, evolving regulatory requirements related to emissions and fuel economy and oil and gas prices and production. Key indicators of our performance include industrial production, industrial sales and manufacturer shipments.

During the six months ended June 29, 2024, sales into replacement channels accounted for approximately 67% of our total net sales. Our replacement sales cover a very broad range of applications and industries and, accordingly, are highly correlated with industrial activity and utilization and not a single end market. Replacement products are principally sold through distribution partners that may carry a very broad line of products or may specialize in products associated with a smaller set of end market applications.

During the six months ended June 29, 2024, sales into first-fit channels accounted for approximately 33% of our total net sales. First-fit sales are to a variety of industrial and automotive customers. Our industrial first-fit customers cover a diverse range of industries and applications and many of our largest first-fit customers manufacture construction and agricultural equipment.

During the six months ended June 29, 2024, demands from industrial first-fit channels softened while the favorable mix of replacement channel sales to first-fit channel sales improved our profitability. We expect our improved inventory position will enable us to meet our customer demands in the second half of the year. Although we expect to experience profit headwind from less favorable foreign exchange and costs associated with incremental new business, our enterprise initiatives are expected to continue building through the balance of fiscal 2024 and support improving profitability and cash generation.

Global conflicts, such as the conflict between Russia and Ukraine and the sanctions and counter-sanctions imposed in response to it, created increased economic uncertainty and operational complexity both in Europe, Middle East and Africa ("EMEA") and globally, the impacts of which we cannot fully predict. Gates had a single distribution center in Russia that sold primarily to customers based in Russia. In early July 2022, we suspended our operations in Russia. The Russia-Ukraine and other global conflicts did not have a significant adverse impact on our operating results during the three and six months ended June 29, 2024. We will continue to monitor if the Russia-Ukraine and other conflicts impact global economic conditions or our business.

Results for the three and six months ended June 29, 2024 compared to the results for the three and six months ended July 1, 2023

Summary Gates Performance

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net sales	$ 885.5	$ 936.3	$ 1,748.1	$ 1,834.0
Cost of sales	528.1	583.6	1,060.7	1,156.2
Gross profit	**357.4**	**352.7**	**687.4**	**677.8**
Selling, general and administrative expenses	218.3	220.7	430.0	452.8
Transaction-related expenses	1.2	0.6	1.6	0.8
Restructuring expenses	1.6	2.2	2.8	7.7
Other operating expenses	0.1	0.1	0.1	0.1
Operating income from continuing operations	**136.2**	**129.1**	**252.9**	**216.4**
Interest expense	49.1	44.5	86.6	85.3
Other (income) expenses	(3.1)	3.7	(4.6)	4.0
Income from continuing operations before taxes	**90.2**	**80.9**	**170.9**	**127.1**
Income tax expense	12.3	9.6	46.8	24.9
Net income from continuing operations	**$ 77.9**	**$ 71.3**	**$ 124.1**	**$ 102.2**
Adjusted EBITDA[(1)]	$ 202.2	$ 197.3	$ 397.8	$ 371.8
Adjusted EBITDA margin	22.8 %	21.1 %	22.8 %	20.3 %

(1) See "—Non-GAAP Measures" for a reconciliation of Adjusted EBITDA to net income from continuing operations, the closest comparable GAAP measure, for each of the periods presented.

Net sales

Net sales during the three months ended June 29, 2024 were $885.5 million, compared to $936.3 million during the prior year period, a decrease of 5.4%, or $50.8 million, driven primarily by the impact of lower sales volume, partially offset by a $9.8 million benefit from pricing. Our net sales for the three months ended June 29, 2024 were adversely impacted by movements in average currency exchange rates of $13.1 million compared to the prior year period, principally due to the strengthening of the U.S. dollar against a number of currencies, in particular the Japanese Yen, Chinese Renminbi, and the Turkish Lira. As such, core sales decreased by $37.7 million, or 4.0%, during the three months ended June 29, 2024 compared to the prior year period.

The overall decline in core sales was primarily driven by a 15.8% decline in sales to our industrial first-fit channel for the three months ended June 29, 2024, primarily in North America and EMEA. The industrial sales decline was primarily driven by agriculture, personal mobility and construction end markets for the three months ended June 29, 2024. Sales to our automotive replacement channel increased by 2.8%, primarily in EMEA and North America, offset by the decline of sales to our automotive first-fit channel.

Net sales during the six months ended June 29, 2024 were $1,748.1 million, compared to $1,834.0 million during the prior year period, a decrease of 4.7%, or $85.9 million, driven primarily by the impact of lower sales volume, partially offset by a $24.0 million benefit from pricing. Our net sales for the six months ended June 29, 2024 were adversely impacted by movements in average currency exchange rates of $15.9 million compared to the prior year period, principally due to the strengthening of the U.S. dollar against a number of currencies, in particular the Chinese Renminbi, Turkish Lira, and Japanese Yen. As such, core sales decreased by $70.0 million, or 3.8%, during the six months ended June 29, 2024 compared to the prior year period.

The overall decline in core sales was driven by an 8.8% decrease of sales to our industrial customers for the six months ended June 29, 2024, particularly in North America and EMEA. Personal mobility, agriculture and construction drove most of the decline, with decreases of 34.5%, 14.0% and 7.4%, respectively, during the six months ended June 29, 2024 compared to the prior year period.

Cost of sales

Cost of sales for the three months ended June 29, 2024 was $528.1 million, compared to $583.6 million for the prior year period, a decrease of 9.5%, or $55.5 million. This decrease was primarily attributable to a $40.8 million combined impact of lower volumes and enterprise initiatives that favorably impacted manufacturing performance. Favorable movements in average currency exchange rates further contributed a decrease of $10.0 million.

Cost of sales for the six months ended June 29, 2024 was $1,060.7 million, compared to $1,156.2 million for the prior year period, a decrease of 8.3%, or $95.5 million. The decrease was primarily attributable to a $69.1 million combined impact of lower volumes and enterprise initiatives that favorably impacted manufacturing performance and $13.3 million due to favorable movements in average currency exchange rates.

Gross profit

As a result of the factors described above and improved mix of replacement channel sales to first-fit channel sales, gross profit for the three months ended June 29, 2024 was $357.4 million, compared to $352.7 million for the prior year period, an increase of 1.3% or $4.7 million. Our gross profit margin improved by 270 basis points to 40.4% for the three months ended June 29, 2024.

As a result of the factors described above and improved mix of replacement channel sales to first-fit channel sales, gross profit for the six months ended June 29, 2024 was $687.4 million, compared to $677.8 million for the prior year period, an increase of 1.4% or $9.6 million. Our gross profit margin improved by 230 basis points to 39.3% for the six months ended June 29, 2024.

Selling, general and administrative expenses

Selling, general and administrative (“SG&A”) expenses for the three months ended June 29, 2024 were $218.3 million compared to $220.7 million for the prior year period. This decrease of $2.4 million was driven primarily by the $7.2 million gain from disposal of property, plant and equipment, partially offset by an increase in labor and benefits expense of $3.8 million.

SG&A expenses for the six months ended June 29, 2024 were $430.0 million compared to $452.8 million for the prior year period. This decrease of $22.8 million was primarily attributable to an $11.3 million charge related to the credit loss due to a customer bankruptcy incurred during the prior year period. The decrease was further driven by the $7.1 million gain from disposal of property, plant and equipment, and higher corporate-owned life insurance related income, partially offset by increased outbound freight costs.

Transaction-related expenses

Transaction-related expenses of $1.2 million and $1.6 million were incurred during the three and six months ended June 29, 2024, respectively, primarily related to the debt refinancing that occurred in June 2024 and certain other corporate transactions. Transaction-related expenses of $0.6 million and $0.8 million were incurred during the prior year three and six months ended July 1, 2023, respectively, related primarily to the secondary offering completed in May 2023 and certain other corporate transactions.

Restructuring expenses

Restructuring and other strategic initiatives during the three and six months ended June 29, 2024 included $0.8 million and $1.6 million, respectively, of costs related to the relocation of certain production activities in Mexico. Other restructuring costs incurred during the three and six months ended June 29, 2024 included legal and consulting expenses, and costs associated with prior period facility closures or relocations in several countries.

Restructuring and other strategic initiatives during the three and six months ended July 1, 2023 related primarily to severance and other non-labor costs related to relocating certain production activities in China, Mexico and Europe. During the three months ended July 1, 2023, we also incurred additional labor and severance costs of $0.5 million related to relocation and integration of certain support functions into our regional shared service center in Europe.

Interest expense

Our interest expense was as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Debt:				
Dollar Term Loans	$ 22.9	$ 31.1	$ 47.5	$ 60.6
Dollar Senior Notes	8.7	8.9	17.6	17.9
Asset-backed revolver	—	0.8	—	0.8
	31.6	**40.8**	**65.1**	**79.3**
Amortization of deferred issuance costs	16.9	2.2	20.1	4.4
Other interest expense	0.6	1.5	1.4	1.6
	$ 49.1	**$ 44.5**	**$ 86.6**	**$ 85.3**

Details of our long-term debt are presented in Note 12 to the condensed consolidated financial statements included elsewhere in this report. Interest on debt increased by $4.6 million for the three months ended June 29, 2024 when compared to the equivalent prior year period, primarily due to $14.8 million accelerated amortization of deferred issuance costs related to the debt refinancing that occurred in June 2024. Interest expenses on the principal amount of debt for the three months ended June 29, 2024 decreased from the prior year period primarily due to the favorable impact of derivatives. Interest on debt increased by $1.3 million for the six months ended June 29, 2024 when compared to the equivalent prior year period. Amortization of deferred issuance costs during the six months ended June 29, 2024 also included the accelerated amortization of $1.0 million due to the $100.0 million repayment against our “2021 Dollar Term Loans” in February 2024. Interest expenses on the principal amount of debt decreased for the six months ended June 29, 2024 primarily due to favorable impact of derivatives.

Other (income) expenses

Our other (income) expense was as follows:

	Three months ended		Six months ended	
(dollars in millions)	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Interest income on bank deposits	$ (2.7)	$ (3.2)	$ (8.4)	$ (5.2)
Foreign currency (gain) loss on net debt and hedging instruments	(4.3)	1.3	(5.1)	2.9
Net adjustments related to post-retirement benefits	(0.6)	(0.8)	(1.3)	(1.5)
Foreign currency loss on hyperinflation remeasurement	1.2	4.8	4.6	4.8
Other	3.3	1.6	5.6	3.0
	$ (3.1)	**$ 3.7**	**$ (4.6)**	**$ 4.0**

Other (income) expenses for the three and six months ended June 29, 2024 were income of $3.1 million and $4.6 million, respectively, compared to expenses of $3.7 million and $4.0 million, respectively, in the prior year periods. These changes were primarily driven by the impact of net movements in foreign currency exchange rates on net debt and hedging instruments and foreign currency remeasurement loss related to translation adjustments for entities that operate in highly inflationary economies, specifically Argentina and Türkiye, for the three months ended June 29, 2024 compared to the prior year period. The change was also attributed to the increased interest income on our bank deposits for the six months ended June 29, 2024 compared to the prior year period.

Income tax expense

We compute the year-to-date income tax provision by applying our estimated annual effective tax rate to our year-to-date pre-tax income and adjust for discrete tax items in the period in which they occur.

For the three months ended June 29, 2024, we had income tax expense of $12.3 million on pre-tax income of $90.2 million, which resulted in an effective tax rate of 13.6%, compared to an income tax expense of $9.6 million on pre-tax income of $80.9 million, which resulted in an effective tax rate of 11.9% for the three months ended July 1, 2023.

For the three months ended June 29, 2024, the effective tax rate was driven primarily by discrete tax benefits of $12.2 million, of which $13.8 million related to unrecognized tax benefits due to audit closures offset by $1.6 million of discrete expenses related to changes in the realizability of certain deferred tax assets. For the three months ended July 1, 2023, the effective tax rate was driven primarily by a discrete tax benefit of $6.4 million related to the adjustments in various foreign jurisdictions in which returns were filed, and $1.8 million of net unrecognized tax benefits, primarily related to audit settlements in India.

For the six months ended June 29, 2024, we had an income tax expense of $46.8 million on pre-tax income of $170.9 million, which resulted in an effective tax rate of 27.4%, compared to an income tax expense of $24.9 million on pre-tax income of $127.1 million, which resulted in an effective tax rate of 19.6% for the six months ended July 1, 2023.

For the six months ended June 29, 2024, the net impact of discrete items was nominal, and the effective tax rate was driven primarily by jurisdictional mix of earnings. For the six months ended July 1, 2023, the net impact of discrete items was nominal, and the effective tax rate was driven primarily by jurisdictional mix of earnings.

Numerous foreign jurisdictions, including the U.K., have enacted or are in the process of enacting legislation to adopt a minimum effective tax rate described in the Global Anti-Base Erosion, or Pillar Two, model rules issued by the Organization for Economic Co-operation and Development, or OECD. Under such rules, a minimum effective tax rate of 15% would apply to multinational companies with consolidated revenue above €750 million. Under the Pillar Two rules, a company would be required to determine a combined effective tax rate for all entities located in a jurisdiction. If the jurisdictional effective tax rate determined under the Pillar Two rules is less than 15%, a top-up tax will be due to bring the jurisdictional effective tax rate up to 15%. We are continuing to monitor the pending implementation of Pillar Two by individual countries and the potential effects of Pillar Two on our business. In response to the expected implementation of Pillar Two in 2024, we took steps in 2023 to mitigate cash tax impacts of Pillar Two that had the effect of increasing our estimated annual effective tax rate by three to five percentage points starting from 2024.

Deferred Tax Assets and Liabilities

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred tax assets, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized.

As of each reporting date, we consider new evidence, both positive and negative, that could impact our view with regard to the future realization of deferred tax assets. We will maintain our positions with regard to future realization of deferred tax assets, including those with respect to which we continue maintaining valuation allowances, until there is sufficient new evidence to support a change in expectations. Such a change in expectations could arise due to many factors, including those impacting our forecasts of future earnings, as well as changes in the international tax laws under which we operate and tax planning. It is not reasonably possible to forecast any such changes at the present time, but it is possible that, should they arise, our view of their effect on the future realization of deferred tax assets may materially impact our financial statements.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined during the three months ended June 29, 2024 that it is more likely than not that deferred tax assets of $6.8 million, primarily in Poland, Mexico, and other jurisdictions, are not realizable. Accordingly, we recognized $4.1 million of discrete expense, while the remaining $2.7 million is recognized as part of the annual effective tax rate.

Similarly, we determined during the three months ended June 29, 2024 that is more likely than not that deferred tax assets of $3.7 million, primarily in Germany, are realizable. Accordingly, we recognized $2.5 million of discrete benefit, while the remaining $1.2 million benefit is recognized as part of the annual effective tax rate.

As a result of changes in future taxable profits and subsidiary structure, our position and judgment regarding the realizability of these deferred tax assets changed.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 29, 2024 was $202.2 million, compared to $197.3 million in the prior year period, an increase of 2.5% or $4.9 million. Adjusted EBITDA margin was 22.8% for the three months ended June 29, 2024, a 170 basis point increase from the prior year period margin of 21.1%. The increase in Adjusted EBITDA was largely the result of enterprise initiatives that favorably impacted manufacturing performance and a $9.8 million benefit from pricing, partially offset by lower volumes.

Adjusted EBITDA for the six months ended June 29, 2024 was $397.8 million, compared to $371.8 million in the prior year period, an increase of 7.0% or $26.0 million. Adjusted EBITDA margin was 22.8% for the six months ended June 29, 2024, a 250 basis point improvement from the prior year period Adjusted EBITDA margin of 20.3%. The drivers of the increase in Adjusted EBITDA were similar to those described above for the three-month period, in addition to lower inflation-related costs during the six months ended June 29, 2024 compared to the prior year period.

For a reconciliation of net income from continuing operations to Adjusted EBITDA for each of the periods presented and the calculation of the Adjusted EBITDA margin, see "—Non-GAAP Measures."

Analysis by Operating Segment

Power Transmission (61.2% and 61.5%, respectively, of Gates' net sales for the three and six months ended June 29, 2024)

	Three months ended		
(dollars in millions)	June 29, 2024	July 1, 2023	Period over period change
Net sales	$ 541.9	$ 573.9	(5.6 %)
Adjusted EBITDA	$ 123.8	$ 119.0	4.0 %
Adjusted EBITDA margin	22.8 %	20.7 %	

	Six months ended		
(dollars in millions)	June 29, 2024	July 1, 2023	Period over period change
Net sales	$ 1,074.7	$ 1,122.0	(4.2 %)
Adjusted EBITDA	$ 242.8	$ 226.7	7.1 %
Adjusted EBITDA margin	22.6 %	20.2 %	

Net sales in Power Transmission for the three months ended June 29, 2024 decreased by 5.6%, or $32.0 million, compared to the prior year period, driven primarily by lower volumes, partially offset by a $4.6 million benefit from pricing. Our net sales for the three months ended June 29, 2024 were adversely impacted by movements in average currency exchange rates of $12.2 million. As such, core sales decreased by 3.5%, or $19.8 million, compared to the prior year period,

Net sales in Power Transmission for the six months ended June 29, 2024 decreased by 4.2%, or $47.3 million, compared to the prior year period, driven primarily by a decrease in volume, partially offset by a $12.4 million benefit from pricing. Our net sales for the six months ended June 29, 2024 were adversely impacted by movements in average currency exchange rates of $18.1 million. As such, core sales decreased by 2.6%, or $29.2 million, compared to the prior year period, Power Transmission's core sales to industrial customers decreased by 5.3% and 7.7% during the three and six months ended June 29, 2024, respectively, compared to the prior year periods. Industrial first fit sales declined by 16.4% and 18.1%, respectively, during the three and six months ended June 29, 2024 compared to the prior year period, particularly in EMEA and North America. The decline of sales to our industrial first fit customers was partially offset by an increase in industrial replacement sales of 3.8% for the three months ended June 29, 2024, primarily driven by the on highway and energy end markets. Sales to our automotive channel remained relatively consistent with the prior year period, with automotive replacement sales slightly increased by 2.3% for the six months ended June 29, 2024.

Power Transmission Adjusted EBITDA for the three months ended June 29, 2024 increased by 4.0%, or $4.8 million, compared to the prior year period, driven primarily by enterprise initiatives which favorably impacted manufacturing performance and benefit from pricing, partially offset by lower volumes. As a result, Adjusted EBITDA margin was 22.8%, a 210 basis point improvement from the prior year period.

Power Transmission Adjusted EBITDA for the six months ended June 29, 2024 increased by 7.1%, or $16.1 million, compared to the prior year period. This increase was driven primarily by enterprise initiatives that favorably impacted manufacturing performance, benefit from pricing, and lower inflation related costs, partially offset by lower volumes. The increase resulted in an Adjusted EBITDA margin of 22.6%, a 240 basis point improvement compared to the prior year period.

Fluid Power (38.8% and 38.5%, respectively, of Gates' net sales for the three and six months ended June 29, 2024)

(dollars in millions)	Three months ended June 29, 2024	Three months ended July 1, 2023	Period over period change
Net sales	$ 343.6	$ 362.4	(5.2 %)
Adjusted EBITDA	$ 78.4	$ 78.3	0.1 %
Adjusted EBITDA margin	22.8 %	21.6 %	

(dollars in millions)	Six months ended June 29, 2024	Six months ended July 1, 2023	Period over period change
Net sales	$ 673.4	$ 712.0	(5.4 %)
Adjusted EBITDA	$ 155.0	$ 145.1	6.8 %
Adjusted EBITDA margin	23.0 %	20.4 %	

Net sales in Fluid Power for the three months ended June 29, 2024 decreased by 5.2%, or $18.8 million, compared to the prior year period, driven primarily by a decrease in volume, partially offset by a $5.2 million benefit from pricing. Our net sales were adversely impacted by movements in average currency exchange rates of $0.9 million. As such, core sales decreased by 4.9%, or $17.9 million, compared to the prior year period,

Net sales in Fluid Power for the six months ended June 29, 2024 decreased by 5.4%, or $38.6 million, compared to the prior year period, driven primarily by a decrease in volume, partially offset by an $11.6 million be nefit from pricing. Our net sales were favorably impacted by movements in average currency exchange rates of $2.2 million. As such, core sales decreased by 5.7%, or $40.8 million, compared to the prior year period.

Fluid Power's core sales to our industrial channel declined by 9.5%, while sales to our automotive channel increased by 11.0% during the three months ended June 29, 2024 compared to the prior year period. The decline in the industrial channel was primarily attributed to North America and EMEA, with agriculture and construction driving most of the sales decline of 18.4% and 8.1%, respectively, during the three months ended June 29, 2024 compared to prior year period. During the six months ended June 29, 2024, the decline of Fluid Power's core sales of 5.7% was primarily attributable to a 9.7% decrease in the industrial channel sales compared to the prior year period, primarily driven by agriculture, construction, and diversified industrial end markets. The decline in industrial sales was partially offset by an 8.7% increase in automotive sales for the six months ended June 29, 2024, primarily from North America and EMEA.

Fluid Power Adjusted EBITDA for the three months ended June 29, 2024 increased by 0.1%, or $0.1 million, compared to the prior year period, driven primarily by pricing and enterprise initiatives that favorably impacted manufacturing performance, largely offset by lower volumes. As a result, the Adjusted EBITDA margin was 22.8%, a 120 basis point improvement from the prior year period.

Fluid Power Adjusted EBITDA for the six months ended June 29, 2024 increased by 6.8%, or $9.9 million, compared to the prior year period. This increase was driven primarily by pricing and enterprise initiatives that favorably impacted manufacturing performance, and lower inflation related costs partially offset by lower volumes, resulting in an Adjusted EBITDA margin of 23.0%, a 260 basis points improvement compared to the prior year period.

Liquidity and Capital Resources

Treasury Responsibilities and Philosophy

Our primary liquidity and capital resource needs are for working capital, debt service requirements, capital expenditures, share repurchases, facility expansions and acquisitions. We expect to finance our future cash requirements with cash on hand, cash flows from operations and, where necessary, borrowings under our revolving credit facilities. We have historically relied on our cash flow from operations and various debt and equity financings for liquidity.

From time to time, we enter into currency derivative contracts to manage currency transaction exposures. Similarly, from time to time, we may enter into interest rate derivatives to maintain the desired mix of floating and fixed rate debt.

As market conditions warrant, we and/or our Sponsor may from time to time seek to repurchase securities that we have issued or loans that we have borrowed in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any such purchases may be funded by existing cash or by incurring new secured or unsecured debt, including borrowings under our credit facilities. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases may relate to a substantial amount of a particular tranche of debt, with a corresponding reduction, where relevant, in the trading liquidity of that debt. In addition, any such purchases made at prices below the “adjusted issue price” (as defined for U.S. federal income tax purposes) may result in taxable cancellation of indebtedness income to us, which may be material, and result in related adverse tax consequences to us.

It is our policy to retain sufficient liquidity throughout the capital expenditure cycle to maintain our financial flexibility. We do not have any meaningful debt maturities until 2029; however, we regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure, and may refinance all or a portion of our indebtedness on or before maturity. We do not anticipate any material long-term deterioration in our overall liquidity position in the foreseeable future, and believe that we have adequate liquidity and capital resources for the next twelve months.

Cash Flow

Six months ended June 29, 2024 compared to the six months ended July 1, 2023

Cash provided by operating activities was $72.8 million during the six months ended June 29, 2024 compared to cash provided by operating activities of $183.9 million during the prior year period, driven primarily by $80.2 million in trade working capital movement compared to the prior year period and an increase of $13.4 million in income taxes paid compared to the prior year period.

Net cash used in investing activities during the six months ended June 29, 2024 was $40.1 million, compared to $41.1 million in the prior year period. The decrease of cash used in investing activities was primarily driven by a $17.6 million decrease in net cash paid under company-owned life insurance policies, and $10.1 million additional proceeds from the sale of property, plant and equipment, partially offset by increased capital expenditures of $15.5 million and higher investment purchases of $11.2 million.

Net cash used in financing activities was $157.6 million during the six months ended June 29, 2024, compared to $160.4 million in the prior year period. Current year outflows were primarily related to the $1,907.0 million debt repayment partially offset by the inflows of $1,800.0 million related to new debt issuance, and the $50.3 million paid to acquire shares under our share repurchase program, including shares repurchased through an intermediary from Blackstone as further described in Note 15 to the condensed consolidated financial statements included elsewhere in this report.

Indebtedness

Our long-term debt, consisting principally of secured term loans and the U.S. dollar denominated unsecured senior notes, was as follows:

	Carrying amount				Principal amount			
(dollars in millions)	As of June 29, 2024		As of December 30, 2023		As of June 29, 2024		As of December 30, 2023	
Secured debt:								
—2024 Dollar Term Loans due June 4, 2031	$	1,290.8	$	—	$	1,300.0	$	—
—2022 Dollar Term Loans due November 16, 2029		546.4		547.8		564.9		567.8
—2021 Dollar Term Loans due November 16, 2029		—		1,322.5		—		1,336.1
Unsecured debt:								
—6.875% Dollar Senior Notes due July 1, 2029		494.9		—		500.0		—
—6.250% Dollar Senior Notes due January 16, 2026		—		581.2		—		568.0
	$	**2,332.1**	**$**	**2,451.5**	**$**	**2,364.9**	**$**	**2,471.9**

We refer to the term loans denominated in U.S. dollars as the “Dollar Term Loans” and the unsecured senior notes denominated in U.S. dollars as the “Dollar Senior Notes”. The Dollar Term Loans that were issued on February 24, 2021 are referred to as the “2021 Dollar Term Loans”, which were extinguished on June 4, 2024. The new tranche of dollar term loans that were issued on June 4, 2024 are referred to as the “2024 Dollar Term Loans”, and the Dollar Term Loans that were issued on November 16, 2022 and repriced on June 4, 2024 are referred to as the “2022 Dollar Term Loans.” Details of our long-term debt are presented in Note 12 to the condensed consolidated financial statements included elsewhere in this quarterly report.

Debt drawings and redemptions

On June 4, 2024, we entered into an amendment to our credit agreement governing our term loan facilities and our secured revolving credit facility. As part of this amendment, we issued new “2024 Dollar Term Loans” and used the proceeds to extinguish the entire outstanding principal balance of the 2021 Dollar Term Loans plus $1.1 million of accrued interest. We issued the 2024 Dollar Term Loans with no discount and incurred third party costs totaling approximately $9.5 million, which have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method. The 2024 Dollar Term Loans require a prepayment premium in connection with certain repricing transactions occurring within six months following the closing of the amendment. The repayment of our 2021 Dollar Term Loans resulted in the accelerated recognition of $11.2 million of deferred issuance costs (recognized in interest expense).

On June 4, 2024, we also issued new unsecured senior notes of $500.0 million (the “2024 Unsecured Senior Notes”), and fully redeemed our existing unsecured senior notes due 2026 of $568.0 million aggregate principal amount (the “2019 Unsecured Senior Notes”), which included the payment of $13.7 million of accrued interest thereon. We issued the 2024 Unsecured Senior Notes with no discount and incurred third party costs of approximately $7.6 million, which have been deferred and will be amortized to interest expense over the remaining term of the 2024 Unsecured Senior Notes using the effective interest method. The redemption of our 2019 Unsecured Senior Notes resulted in the accelerated recognition of $2.6 million (recognized in interest expense).

During February 2024, we made a voluntary principal debt repayment of $100.0 million against our 2021 Dollar Term Loans. As a result of this repayment, we accelerated the recognition of $1.0 million of deferred issuance costs (recognized in interest expense).

During May 2023, we drew $100.0 million under our asset-backed revolving credit facility to partially fund the purchase of shares under our 2023 share repurchase program. During fiscal 2023, we paid down the borrowings on the asset-backed revolver and had no remaining outstanding balance as of June 29, 2024 and December 30, 2023.

Dollar Term Loan credit agreement amendments

On June 4, 2024, we amended the 2022 Dollar Term Loans’ interest rate to be, at our option, either Term SOFR, subject to a floor of 0.50%, plus a margin of 2.25% per annum, or the base rate, subject to a 1.50% per annum floor, plus 1.50% per annum.

On June 4, 2024, in connection with the amendment to our credit agreement, we increased borrowing capacity under our revolving credit facility from $250.0 million to $500.0 million and extended the maturity from November 18, 2026 to the date that is the earliest of (x) June 4, 2029 and (y) April 1, 2029, if greater than $500.0 million in aggregate principal amount of the 2024 Unsecured Senior Notes are outstanding. We incurred associated third party costs of approximately $2.5 million, which have been deferred and will be amortized to interest expense over the remaining term of the revolving credit facility. Concurrently with this amendment, we terminated the $250.0 million asset-backed revolving credit facility governed by the second amended and restated credit agreement dated as of November 18, 2021.

On October 10, 2023, we amended the 2022 Dollar Term Loans' interest rate to be, at our option, either Term SOFR, subject to a floor of 0.50%, plus a margin of 3.00% per annum, or the base rate, subject to a 1.50% per annum floor, plus 2.00% per annum.

On March 1, 2023, we amended the 2021 Dollar Term Loans, revolving credit facility and asset-backed revolver, which bore interests at LIBOR plus an applicable margin. The amendments modified the reference rates for borrowings in dollar from LIBOR to Term SOFR or Adjusted Term SOFR, as applicable. For further information on the facilities, see Note 12 to the condensed consolidated financial statements included elsewhere in this quarterly report.

Non-guarantor subsidiaries

The majority of the Company's U.S. subsidiaries are guarantors of the senior secured credit facilities.

For the twelve months ended June 29, 2024, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 75% of our net sales and 75% of our EBITDA as defined in the financial covenants attaching to the senior secured credit facilities. As of June 29, 2024, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 68% of our total assets and approximately 25% of our total liabilities.

Net Debt

Net Debt is a non-GAAP measure representing the principal amount of our debt less the carrying amount of cash and cash equivalents. During the six months ended June 29, 2024, our Net Debt increased by $33.9 million from $1,751.3 million as of December 30, 2023 to $1,785.2 million as of June 29, 2024. Net Debt was impacted adversely by $16.2 million due to movements in currency exchange rates. Excluding this impact, Net Debt increased by $17.7 million, which was driven primarily by $50.3 million paid to acquire shares under our share repurchase program and $45.3 million of capital expenditures, partially offset by $72.8 million of cash provided from operating activities during the six months ended June 29, 2024.

Borrowing Headroom

On June 4, 2024, we extinguished our asset-backed revolving credit facility as discussed further in Note 12 to the condensed consolidated financial statements included elsewhere in this quarterly report. In connection with the amendment to our credit agreement, we increased borrowing capacity under our secured revolving credit facility that provides for multi-currency revolving loans from $250.0 million to $500.0 million and extended the maturity from November 18, 2026 to June 4, 2029. The letters of credit outstanding under this facility were $28.3 million as of June 29, 2024. As of June 29, 2024, there were no drawings for cash under the revolving credit facility.

In total, our committed borrowing headroom was $471.7 million, in addition to cash and cash equivalents balances of $579.7 million.

Non-GAAP Measures

EBITDA and Adjusted EBITDA

EBITDA is a non-GAAP measure that represents net income or loss from continuing operations for the period before the impact of income taxes, net interest and other expenses, depreciation and amortization. EBITDA is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense).

Management uses Adjusted EBITDA as its key profitability measure. This is a non-GAAP measure that represents EBITDA before certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. We use Adjusted EBITDA as our measure of segment profitability to assess the performance of our businesses, and it is used for total Gates as well because we believe it is important to consider our profitability on a basis that is consistent with that of our operating segments, as well as that of our peer companies with a similar leveraged, private equity ownership history. We believe that Adjusted EBITDA should, therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the performance of our businesses.

During the periods presented, the items excluded from EBITDA in computing Adjusted EBITDA primarily included:

- non-cash charges in relation to share-based compensation;
- transaction-related expenses incurred in relation to major corporate transactions, including the acquisition of businesses and related integration activities, and equity and debt transactions;
- restructuring expenses, including severance-related expenses;
- credit loss related to a customer bankruptcy;
- cybersecurity incident expenses; and
- inventory adjustments related to certain inventories accounted for on a LIFO basis.

Differences exist among our businesses and from period to period in the extent to which their respective employees receive share-based compensation or a charge for such compensation is recognized. We therefore exclude from Adjusted EBITDA the non-cash charges in relation to share-based compensation in order to assess the relative performance of our businesses.

We exclude from Adjusted EBITDA acquisition-related costs that are required to be expensed in accordance with U.S. GAAP. We also exclude costs associated with major corporate transactions because we do not believe that they relate to our performance. Other items are excluded from Adjusted EBITDA because they are individually or collectively significant items that are not considered to be representative of the underlying performance of our businesses. During the periods presented, we excluded restructuring expenses and severance-related expenses that reflect specific, strategic actions taken by management to shutdown, downsize, or otherwise fundamentally reorganize areas of Gates' business; expenses related to a malware attack that occurred in February 2023; and changes in the LIFO inventory reserve recognized in cost of sales for certain inventories that are valued on a LIFO basis. During inflationary or deflationary pricing environments, LIFO adjustments can result in variability of the cost of sales recognized each period as the most recent costs are matched against current sales, while historical, typically lower, costs are retained in inventory. LIFO adjustments are determined based on published pricing indices, which often are not representative of the actual cost changes or timing of those changes as experienced by our business. Excluding the impact from the application of LIFO therefore improves the comparability of our financial performance from period to period and with the Company's peers, and more closely represents the physical flow of our inventory and how we manage the business.

EBITDA and Adjusted EBITDA exclude items that can have a significant effect on our profit or loss and should, therefore, be used in conjunction with, not as substitutes for, profit or loss for the period. Management compensates for these limitations by separately monitoring net income from continuing operations for the period.

The following table reconciles net income from continuing operations, the most directly comparable GAAP measure, to EBITDA and Adjusted EBITDA:

(dollars in millions)	Three months ended June 29, 2024	Three months ended July 1, 2023	Six months ended June 29, 2024	Six months ended July 1, 2023
Net income from continuing operations	$ 77.9	$ 71.3	$ 124.1	$ 102.2
Income tax expense	12.3	9.6	46.8	24.9
Net interest and other expenses	46.0	48.2	82.0	89.3
Depreciation and amortization	54.5	54.0	109.1	108.5
EBITDA	**190.7**	**183.1**	**362.0**	**324.9**
Transaction-related expenses [1]	1.2	0.6	1.6	0.8
Restructuring expenses	1.6	2.2	2.8	7.7
Share-based compensation expense	5.2	6.8	13.8	16.3
Inventory impairments and adjustments (included in cost of sales) [2]	3.4	3.5	17.3	4.1
Severance expenses (included in cost of sales)	—	—	—	0.5
Severance expenses (included in SG&A)	—	0.3	0.1	0.9
Credit loss related to customer bankruptcy (included in SG&A) [3]	—	0.7	0.1	11.4
Cybersecurity incident expenses [4]	—	—	—	5.1
Other items not directly related to current operations [5]	0.1	0.1	0.1	0.1
Adjusted EBITDA	**$ 202.2**	**$ 197.3**	**$ 397.8**	**$ 371.8**

[1] Transaction-related expenses relate primarily to advisory fees and other costs recognized in respect of major corporate transactions, including the acquisition of businesses, and equity and debt transactions.

[2] Inventory impairments and adjustments include the reversal of the adjustment to remeasure certain inventories on a LIFO basis.

[3] On January 31, 2023, one of our customers filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In connection with the bankruptcy proceedings, we preliminarily evaluated our potential risk and exposure relating to our outstanding pre-petition accounts receivable balance from the customer and recorded an initial pre-tax charge to reflect our estimated recovery. Based on further developments in the bankruptcy proceedings, we recorded an additional $0.1 million pre-tax charge during the six months ended June 29, 2024. We will continue to monitor the circumstances surrounding the bankruptcy in determining whether adjustments to this recovery estimate are necessary.

[4] On February 11, 2023, Gates determined that it was the target of a malware attack. Cybersecurity incident expenses include legal, consulting, and other costs incurred as a direct result of this incident, some of which may be partially offset by insurance recoveries.

[5] Other items not directly related to current operations include asset impairment and other charges.

Adjusted EBITDA Margin

Adjusted EBITDA margin is a non-GAAP measure that represents Adjusted EBITDA expressed as a percentage of net sales. We use Adjusted EBITDA margin to measure the success of our businesses in managing our cost base and improving profitability.

(dollars in millions)	Three months ended June 29, 2024	Three months ended July 1, 2023	Six months ended June 29, 2024	Six months ended July 1, 2023
Net sales	$ 885.5	$ 936.3	$ 1,748.1	$ 1,834.0
Adjusted EBITDA	$ 202.2	$ 197.3	$ 397.8	$ 371.8
Adjusted EBITDA margin	22.8 %	21.1 %	22.8 %	20.3 %

Core sales growth reconciliations

Core sales growth is a non-GAAP measure that represents net sales for the period excluding the impacts of movements in average currency exchange rates and the first-year impacts of acquisitions and disposals, when applicable. We present core growth because it allows for a meaningful comparison of year-over-year performance without the volatility caused by foreign currency gains or losses or the incomparability that would be caused by impacts of acquisitions or disposals. Management believes that this measure is therefore useful for securities analysts, investors and other interested parties to assist in their assessment of the operating performance of our businesses. The closest GAAP measure is net sales.

	Three months ended June 29, 2024		
(dollars in millions)	Power Transmission	Fluid Power	Total
Net sales for the three months ended June 29, 2024	$ 541.9	$ 343.6	**$ 885.5**
Impact on net sales of movements in currency rates	12.2	0.9	**13.1**
Core sales for the three months ended June 29, 2024	**$ 554.1**	**$ 344.5**	**$ 898.6**
Net sales for the three months ended July 1, 2023	573.9	362.4	**936.3**
Decrease in net sales on a core basis (core sales)	**$ (19.8)**	**$ (17.9)**	**$ (37.7)**
Core sales decline	(3.5 %)	(4.9 %)	**(4.0 %)**

	Six months ended June 29, 2024		
(dollars in millions)	Power Transmission	Fluid Power	Total
Net sales for the six months ended June 29, 2024	$ 1,074.7	$ 673.4	**$ 1,748.1**
Impact on net sales of movements in currency rates	18.1	(2.2)	**15.9**
Core sales for the six months ended June 29, 2024	**$ 1,092.8**	**$ 671.2**	**$ 1,764.0**
Net sales for the six months ended July 1, 2023	1,122.0	712.0	**1,834.0**
Decrease in net sales on a core basis (core sales)	**$ (29.2)**	**$ (40.8)**	**$ (70.0)**
Core sales decline	(2.6 %)	(5.7 %)	**(3.8 %)**

Net Debt

Management uses Net Debt, rather than the narrower measure of cash and cash equivalents and restricted cash which forms the basis for the condensed consolidated statement of cash flows, as a measure of our liquidity and in assessing the strength of our balance sheet.

Management analyzes the key cash flow items driving the movement in net debt to better understand and assess Gates' cash performance and utilization in order to maximize the efficiency with which resources are allocated. The analysis of cash movements in Net Debt also allows management to more clearly identify the level of cash generated from operations that remains available for distribution after servicing our debt and post-employment benefit obligations and after the cash impacts of acquisitions and disposals.

Net Debt represents the net total of:

- the principal amount of our debt; and
- the carrying amount of cash and cash equivalents.

Net Debt was as follows:

(dollars in millions)		As of June 29, 2024		As of December 30, 2023
Principal amount of debt	$	2,364.9	$	2,471.9
Less: Cash and cash equivalents		(579.7)		(720.6)
Net Debt	**$**	**1,785.2**	**$**	**1,751.3**

The principal amount of debt is reconciled to the carrying amount of debt as follows:

(dollars in millions)		As of June 29, 2024		As of December 30, 2023
Principal amount of debt	$	2,364.9	$	2,471.9
Accrued interest		3.1		17.0
Deferred issuance costs		(35.9)		(37.4)
Carrying amount of debt	**$**	**2,332.1**	**$**	**2,451.5**

Adjusted EBITDA adjustments for ratio calculation purposes

The financial maintenance ratio in our credit agreement and other ratios related to incurrence-based covenants (measured only upon the taking of certain actions, including the incurrence of additional indebtedness) under our credit agreement governing our revolving credit facility and our term loan facility and the indenture governing our outstanding notes are calculated in part based on financial measures similar to Adjusted EBITDA as presented elsewhere in this report, which financial measures are determined at the Gates Industrial Holdco Limited level and adjust for certain additional items such as severance costs, the pro forma impacts of acquisitions and the pro forma impacts of cost-saving initiatives. These additional adjustments during the last 12 months, as calculated pursuant to such agreements, resulted in a net benefit to Adjusted EBITDA for ratio calculation purposes of $6.8 million. Pursuant to the terms of the credit agreement governing our revolving credit facility and term loans, the Company may not, subject to certain exceptions, permit its Consolidated First Lien Net Leverage Ratio (as defined in the credit agreement) to exceed 4.50 to 1.00 as of the end of the test period if borrowings under the revolving credit facility exceed a certain threshold. Pursuant to the credit agreement, this ratio is defined as Consolidated First Lien Net Debt (as defined in the credit agreement) divided by Consolidated EBITDA (as defined in the credit agreement). For a description of the other material terms related to our debt agreements, please refer to Note 12 to the condensed consolidated financial statements included elsewhere in this report, and for a discussion of risks related to the compliance or non-compliance with the covenants described herein on the Company's financial condition and liquidity, please refer to the factors described in Item 1A. "Risk Factors—Risks Related to Our Indebtedness" in Part I of the annual report. During the periods covered by the condensed consolidated financial statements included in this report, we were in compliance with the financial covenant and had no borrowing on the revolving credit facility.

Gates Industrial Corporation plc is not an obligor under our revolving credit facility, our term loan facility or the indenture governing our outstanding notes. Gates Industrial Holdco Limited, a direct wholly-owned subsidiary of Gates Industrial Corporation plc, is the parent guarantor under our revolving credit facility, our term loan facility, and our outstanding notes. The only significant difference between the results of operations and net assets that would be shown in the consolidated financial statements of Gates Industrial Holdco Limited and those for the Company that are included elsewhere in this report is (i) additional net intercompany loan payable due to Gates Industrial Holdco and its subsidiaries from the Company, which was $402.8 million and $333.6 million as of June 29, 2024 and December 30, 2023, respectively, (ii) additional intercompany payables due to Gates Industrial Holdco Limited and its subsidiaries from the Company attributable to UK tax group relief of $28.4 million and $26.6 million as of June 29, 2024 and December 30, 2023, respectively and (iii) additional cash and cash equivalents held by the Company, which was $5.3 million and $3.5 million as of June 29, 2024 and December 30, 2023, respectively.

Critical Accounting Estimates and Judgments

Our management's discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reported period.

Please refer to “Critical Accounting Estimates and Judgments” described in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2023, as filed with the SEC, from which there have been no material changes.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Our market risk includes the potential loss arising from adverse changes in foreign currency exchange rates, interest rates and commodity prices, and the credit risk of our customers and third-party depository institutions that hold our cash and short term deposits. From time to time, we use derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts, interest rate caps (options), and interest rate swaps to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes and monitor closely the credit quality of the institutions with which we transact. Our objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates and interest rate movements. For a discussion of quantitative and qualitative disclosures about market risk, please refer to our annual report from which our exposure to market risk has not materially changed.

Item 4: Controls and Procedures

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. The Company’s management, with the participation of the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company’s Chief Executive Officer and the Company’s Chief Financial Officer concluded that, as of June 29, 2024, the Company’s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1: Legal Proceedings

Information regarding legal proceedings is incorporated into this Part II, Item 1 from Note 18 of the notes to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A: Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in Part I of the Company’s annual report, which could materially affect the Company’s business, financial condition, operating results or liquidity or future results. The risks described in the annual report are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its results of operations, financial condition or liquidity. There have been no material changes to the risk factors disclosed in the annual report.

Item 5. Other Information

Section 13(r) Disclosure

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, we hereby incorporate by reference herein Exhibit 99.1 of this report, which includes disclosures regarding activities at Mundys S.p.A. (formerly Atlantia S.p.A.), which may be, or may have been at the time considered to be, an affiliate of Blackstone and, therefore, our affiliate.

Trading Arrangements

During the three months ended June 29, 2024, no director or officer (as defined in Rule 16a-1(f) of the Exchange Act) of the Company informed us of the adoption or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6: Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Gates Industrial Corporation plc (incorporated by reference from Exhibit 3.1 to the registrant's Amendment No. 1 to its Registration Statement on Form S-1, filed on January 8, 2018 (File No. 333-222310))
3.2	Articles of Association of Gates Industrial Corporation plc, effective October 7, 2019 (incorporated by reference from Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q, filed on November 6, 2019)
4.1	Indenture, dated as of June 4, 2024, by and among Gates Corporation, the guarantors named on the signature pages thereto and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the registrant's Current Report on Form 8-K, filed on June 4, 2024)
4.2	Form of 6.875% Senior Note due 2029 (included in Exhibit 4.1)
10.1	Amendment No. 9, dated June 4, 2024, to Credit Agreement, dated as of July 3, 2014, among Omaha Holdings LLC, Gates Industrial Holdco Limited, Omaha Acquisition Inc., Gates Global LLC, Gates Corporation, each of the guarantors party thereto, UBS AG Cayman Islands Branch, as administrative agent, UBS AG, Stamford Branch, as collateral agent and L/C issuer, lenders party thereto and JPMorgan Chase Bank, N.A., as fronting lender (incorporated by reference from Exhibit 4.3 to the registrant's Current Report on Form 8-K, filed on June 4, 2024)
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
99.1	Section 13(r) Disclosure*
101	The following financial information from Gates Industrial Corporation's Quarterly Report on Form 10-Q for the three and six months ended June 29, 2024, formatted in inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Statements of Operations for the three and six months ended June 29, 2024 and July 1, 2023, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 29, 2024 and July 1, 2023, (iii) Condensed Consolidated Balance Sheets as of June 29, 2024 and December 30, 2023, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 29, 2024 and July 1, 2023, (v) Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended June 29, 2024 and July 1, 2023, and (vi) Notes to the Condensed Consolidated Financial Statements*
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101)

* Filed herewith.

** Furnished herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GATES INDUSTRIAL CORPORATION PLC
(Registrant)

By: /s/ L. Brooks Mallard

Name: L. Brooks Mallard
Title: Chief Financial Officer
(On behalf of the Registrant)

By: /s/ John S. Patouhas

Name: John S. Patouhas
Title: Chief Accounting Officer
(Principal Accounting Officer)

Date: July 31, 2024

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ivo Jurek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 29, 2024 of Gates Industrial Corporation plc (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 31, 2024

/s/ Ivo Jurek

Ivo Jurek

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, L. Brooks Mallard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 29, 2024 of Gates Industrial Corporation plc (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 31, 2024

/s/ L. Brooks Mallard

L. Brooks Mallard

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

Certification pursuant to

18 U.S.C. Section 1350,

as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Gates Industrial Corporation plc (the "Company") for the period ended June 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, in his capacity as an officer of the Company and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ivo Jurek

Ivo Jurek
Chief Executive Officer
(Principal Executive Officer)
Date: July 31, 2024

/s/ L. Brooks Mallard

L. Brooks Mallard
Chief Financial Officer
(Principal Financial Officer)
Date: July 31, 2024

A signed original of this certification required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 99.1

Section 13(r) Disclosure

After Gates Industrial Corporation plc ("Gates") filed its Form 10-Q for the quarter ended June 29, 2024 with the Securities and Exchange Commission (the "SEC"), Blackstone Inc. ("Blackstone") filed the disclosure reproduced below with respect to its quarter ended March 31, 2024, in accordance with Section 13(r) of the Securities Exchange Act of 1934, as amended, in regard to Mundys S.p.A. (formerly, Atlantia S.p.A.). Mundys S.p.A. may be, or may have been at the time considered to be, an affiliate of Blackstone, and therefore an affiliate of Gates. As of the date Gates filed its Form 10-Q for the quarter ended June 29, 2024 with the SEC, Blackstone had not yet filed its Form 10-Q for its quarter ended June 30, 2024. Therefore, the disclosure reproduced below does not include any information for the quarter ended June 29, 2024. Gates did not independently verify or participate in the preparation of the disclosure reproduced below.

<u>Blackstone included the following disclosure in its Form 10-Q for the period ended March 31, 2024:</u>

Mundys S.p.A. (formerly "Atlantia S.p.A.") provided the disclosure reproduced below in connection with activities during the quarter ended March 31, 2024. We have not independently verified or participated in the preparation of this disclosure.

"Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934. Funds affiliated with Blackstone first invested in Mundys S.p.A. on November 18, 2022 in connection with the voluntary public tender offer by Schema Alfa S.p.A. for all of the shares of Mundys S.p.A., pursuant to which such funds obtained a minority non-controlling interest in Mundys S.p.A. Mundys S.p.A. owns and controls Aeroporti di Roma S.p.A. ("ADR"), an operator of airports in Italy including Leonardo da Vinci-Fiumicino Airport. Iran Air has historically operated periodic flights to and from Leonardo da Vinci-Fiumicino Airport as authorized, from time to time, by an aviation-related bilateral agreement between Italy and Iran, scheduled in compliance with European Regulation 95/93, and approved by the Italian Civil Aviation Authority. ADR, as airport operator, is under a mandatory obligation to provide airport services to all air carriers (including Iran Air) authorized by the applicable Italian authority. The relevant turnover attributable to these activities (whose consideration is calculated on the basis of general tariffs determined by such independent Italian authority) in the quarter ended March 31, 2024 was less than €70,000. Mundys S.p.A. does not track profits specifically attributable to these activities."