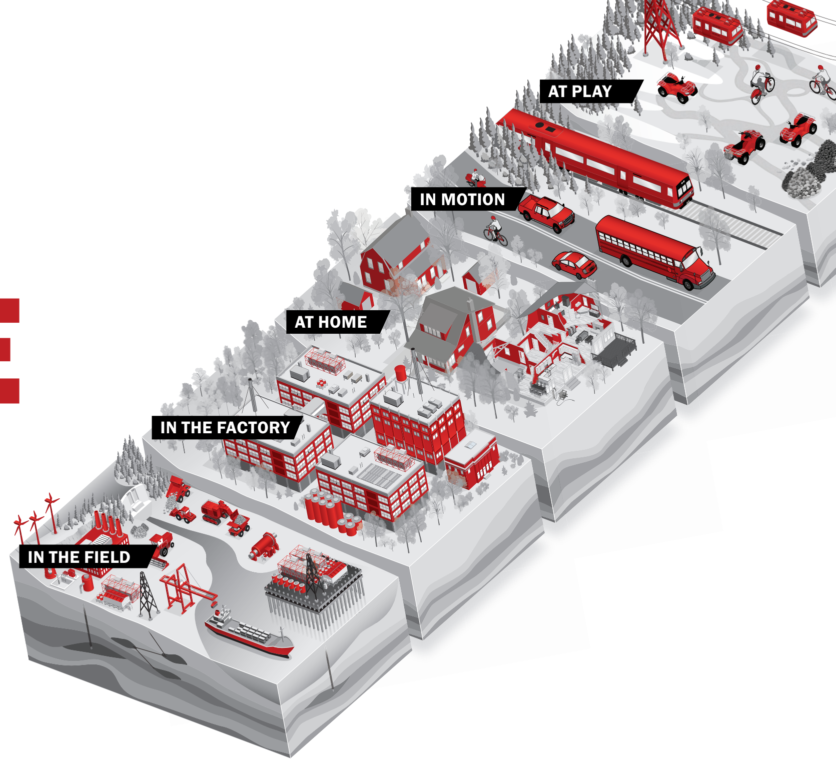
ANNUAL REPORT

2022

HIGHLY ENGINEERED INDUSTRIAL COMPONENTS PERFORMING MISSION-CRITICAL FUNCTIONS

For more than a century, Gates has pushed the boundaries of materials science to engineer products that play essential roles in a diverse range of applications with natural replacement cycles. Our innovations in power transmission and fluid power solutions serve a wide variety of end markets, including diversified industrial, personal mobility, automotive, energy and resources and industrial on/off-highway.

GATES IS THERE

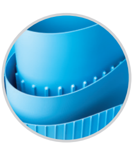


IN APPLICATIONS BIG AND SMALL, IN THE EVOLUTIONARY AND THE REVOLUTIONARY.

POWER TRANSMISSION


SYNCHRONOUS BELTS


V-BELTS, CVT & MICRO-V BELTS


THERMOPLASTIC POLYURETHANE POSITIONING & CONVEYANCE BELTS


METAL DRIVE SYSTEMS


STANDARD & ELECTRIC WATER PUMPS


DIGITAL DESIGN SOLUTIONS

FLUID POWER


HYDRAULIC HOSE & TUBING


THERMAL MANAGEMENT HOSE


INDUSTRIAL FLUID CONVEYANCE HOSE


OIL & GAS HOSE


COUPLINGS & HOSE ASSEMBLIES


DESIGN/ECRIMP SOLUTIONS

2022 AT A GLANCE

$3.6B
REVENUE
7.6% CORE GROWTH

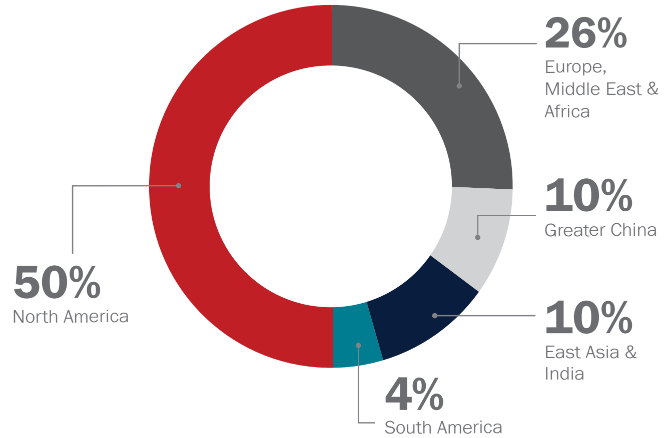
$681M
ADJ. EBITDA
19.1% MARGIN

$179M
FREE CASH FLOW
54.3% CONVERSION

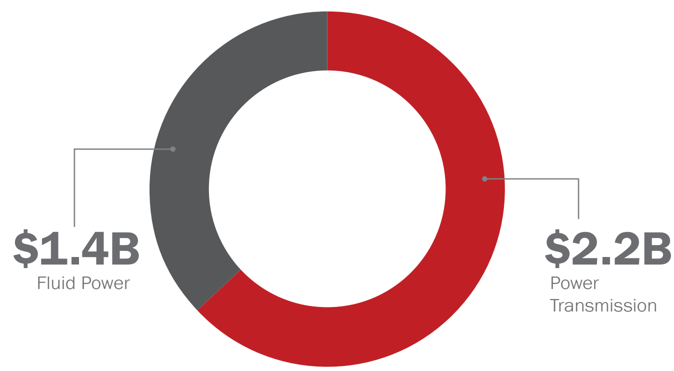
$1.14
ADJ. EPS
17% DECLINE

20.0%
ROIC
240 BPS DECLINE

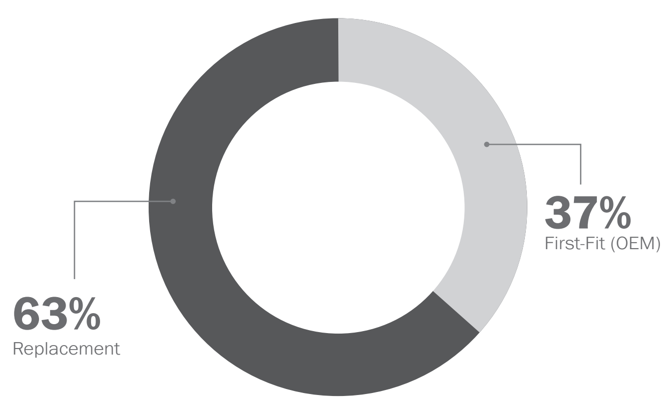
GEOGRAPHIES



SEGMENTS

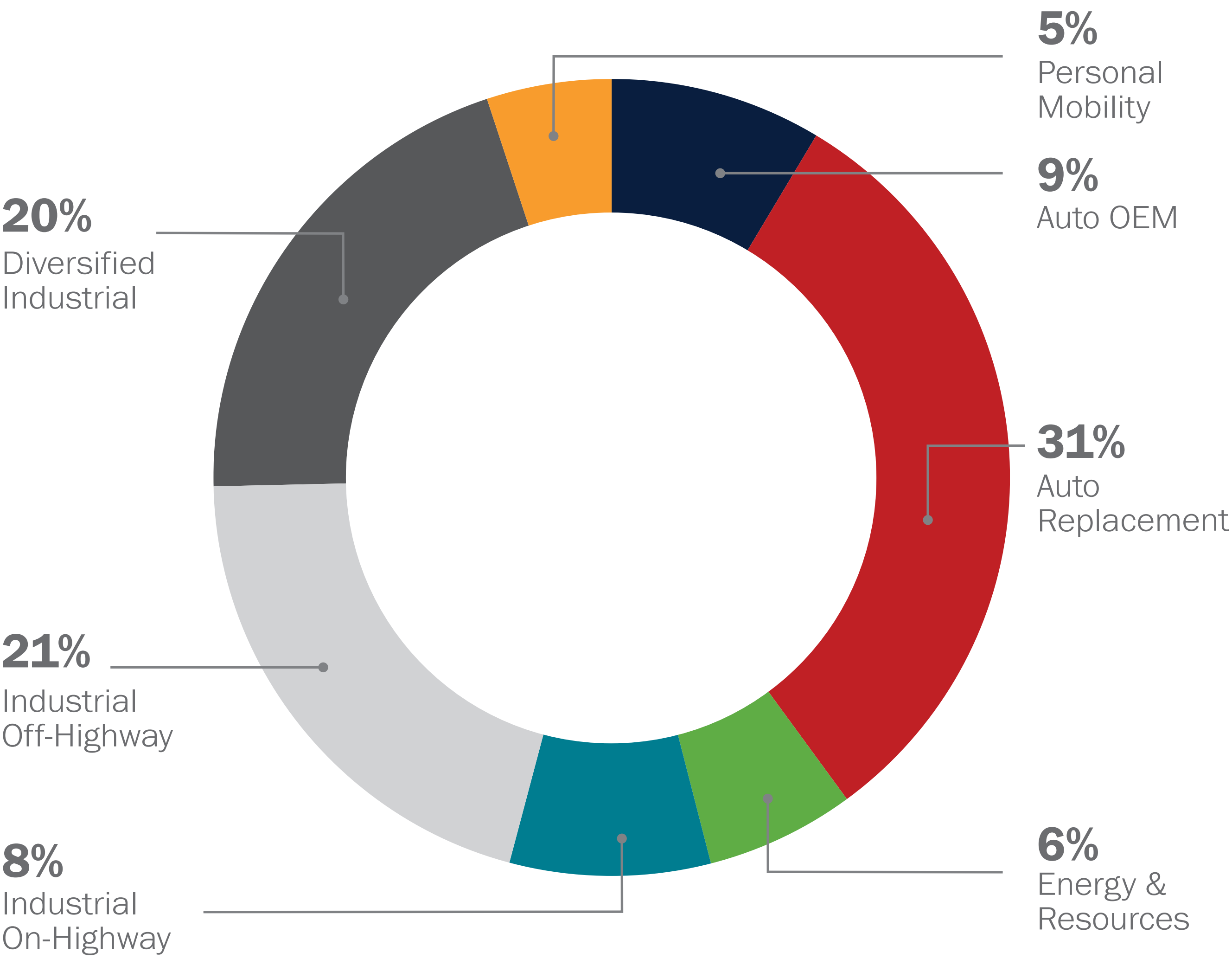


CHANNELS



This Annual Report includes certain non-GAAP financial measures, which management believes are useful to investors. Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. For additional information, please see the section Non-GAAP Measures in Item 7 of this report as well as the supplemental reconciliations at the end of this document.

END MARKETS SUPPORTED BY SECULAR TAILWINDS.



Numerous secular trends support demand for our products across end markets. Propulsion technologies in personal mobility and automotive applications are being electrified. Global infrastructure is broadly outdated and demand for traditional and renewable energy capabilities is rising. A focus on efficiency and sustainability is driving increasing levels of automation in factories and warehouses along with an increase in freight transportation. This demand is supplemented by our innovations in materials science to convert industrial chain to belts. Gates products play mission-critical roles in all of these trends, enabling reliable, efficient and safe operation across a wide range of applications.

DEAR FELLOW SHAREHOLDERS:

2022 was another year filled with significant challenges as well as acceleration of our exposure to long-term secular trends. Further, we continued to make progress on our key initiatives, building our organizational capabilities and expanding our commitment to Environmental, Sustainability and Governance (ESG).

OUR INVESTMENTS ARE DRIVING A STRONGER, HIGHER GROWTH POTENTIAL COMPANY

Our investment initiatives are driving higher new product vitality rates[1] in our segments and stronger long-term growth potential for our company. Our new product introductions in Fluid Power target expansion of our portfolio to serve a broader set of industrial end markets. The vitality rate in our Fluid Power segment is accelerating towards our mid-term goal of 25%. The investments made over the last several years in new products and optimizing our global footprint continue to drive above-market growth rates. Our most recent product introductions in Power Transmission are also gaining traction and leading to an accelerating vitality rate and above market growth rate in this segment as well. We believe innovation is a key tenet to maintaining a competitive advantage. To this end, we continue to invest in our Eco-Innovation™ capabilities that cut across materials science, product design and process engineering to enhance our ability to accelerate the introduction of differentiated new products and solve our customers' most complex problems.

Our focus on converting applications from chain to belt is progressing nicely. The Personal Mobility end-market experienced continued momentum and exited the year at an annualized sales rate, approximately 4x higher than 2019. In 2022, we introduced several new Mobility-focused products targeting electric bikes and scooters, significantly increasing our ability to serve the rapidly growing areas of the two-wheeler market. Furthermore, our industrial chain to belt efforts continue to gain traction with many new design wins across a broad spectrum of applications and the opportunity pipeline is expanding.

In addition to new products and targeted growth initiative investments, we are devoting resources to expanding our digital capabilities. We upgraded and relaunched Gates Design Power™, an engineering software platform offering multiple digital design tools to support the design and specification of belt-drive systems across a broad array of industrial and mobility applications.

[1] Measured as the percentage of sales coming from new products introduced in the last five years.

Gates Design Power is just one example of how we are enhancing the ease with which our customers can apply our products and realize the full benefits of the low-maintenance, quiet, and efficient solutions we offer.

WE IMPROVED OUR LONG-TERM BUSINESS PROSPECTS IN A CHALLENGING BUSINESS ENVIRONMENT

In 2022 we were faced with several macro headwinds. We believe the actions we took during the year not only helped to partially mitigate the significant impacts of these items to our plan, but also helped position the company for higher growth and profitability in the future. We delivered solid core revenue growth despite these challenges, underscored by strong contributions from our key growth initiatives which more than offset volume pressure caused by the suspension of our Russian operations and the COVID-related disruptions in China. Our business and operating teams worked diligently to offset incremental inflation exiting the year in a cost-price margin neutral position. We also executed plans to help address volatility in the global supply chain and support future growth objectives by leveraging our materials science capabilities to engineer alternative materials. We continued to deploy the Gates Operating System throughout our portfolio and facilities to maintain competitive positioning while being highly focused on improving our safety and quality metrics. As a result of our efforts, we were recognized by several customers through quality and service level awards across our global operating units.

OUR FOCUS ON SUSTAINABILITY CONTINUES TO GAIN MOMENTUM

In 2022, we expanded our commitment to ESG by establishing a team and a dedicated leader to advance Gates' ESG efforts within our business and across the communities and environments where we operate. We established a Sustainability Management Council charged with monitoring progress towards our strategic ESG objectives with the company's senior management. At the Board of Directors level, we initiated formal ownership of ESG efforts within the Nominating and Governance committee, reporting to the broader Board. Additionally, we launched a Diversity, Equity and Inclusion (DEI) Council that has established three key sub-committees focused on Culture, Recruiting and Leadership Development.

Within our operations we implemented a variety of new initiatives to reduce waste and optimize our input utilization. Our 80/20 initiative continues to highlight opportunities to reduce complexity resulting in improved efficiencies in our factories, support functions and logistics networks. We continue to leverage our materials science capabilities to launch products that use less material with more environmentally friendly inputs while achieving superior performance. Many of our products also assist our customers with meeting their sustainability objectives through improved safety, efficiency and reduced environmental footprint.

WE EXITED THE YEAR IN STRONG FINANCIAL POSITION – OUR COMPANY'S FUTURE IS BRIGHT

While the business environment in 2022 was uneven, we finished the year in a strong financial position. We generated record quarterly free cash flow in the fourth quarter and extended our debt maturities leading to an improved balance sheet position. These results and actions provide us with incremental flexibility to invest in our business and deliver value to our shareholders over the mid-term.

I want to thank all our associates for their efforts and dedication over the last year; they have shown tremendous resiliency. I also extend my gratitude to our shareholders for their confidence and trust. While we continue to face a dynamic global operating environment, I believe that the investments made over the last few years, our focus on innovation and operational excellence, combined with favorable secular trends, position us well to drive solid top-line growth, incremental margin expansion and higher free cash flows moving forward.

Sincerely,

Ivo Jurek | Chief Executive Officer

> **"Our investment initiatives are driving higher new product vitality rates in our segments and stronger long-term growth potential for our company."**

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

FORM 10-K

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

For the fiscal year ended December 31, 2022

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 (State or other jurisdiction of incorporation or organization)	**98-1395184** (I.R.S. Employer Identification Number)
1144 Fifteenth Street, Denver, Colorado (Address of principal executive offices)	**80202** (Zip Code)

(303) 744-1911
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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. Yes ☐ No ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was $1,062.2 million.

As of February 6, 2023, there were 282,603,630 ordinary shares of $0.01 par value outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to stockholders in connection with its 2023 annual general meeting of shareholders are incorporated by reference into Part III.

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Forward-looking Statements

This Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (this “annual 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 estimates and expectations with respect to, among other things, our future 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. You should not place undue reliance on these forward-looking statements. Although such statements are based on management’s current estimates and expectations and/or currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain and are subject to risks and uncertainties that could cause our actual results to differ materially from what may be inferred from such statements. Factors that could cause or contribute to such differences include those described under “Part I - Item 1A. Risk Factors” of this annual report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements included in this annual report and in our other periodic filings with the Securities and Exchange Commission (the “SEC”). Gates Industrial Corporation plc 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.

ABOUT THIS ANNUAL REPORT

Financial Statement Presentation

Gates Industrial Corporation plc is a public limited company that was incorporated under the United Kingdom 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 annual 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 annual report are expressed in United States of America (the “U.S.”) dollars, unless indicated otherwise.

Certain Definitions

As used in this annual 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;
- “Fiscal 2022” refers to the fiscal year ended December 31, 2022, “Fiscal 2021” refers to the fiscal year ended January 1, 2022, and “Fiscal 2020” refers to the fiscal year ended January 2, 2021; and
- “Blackstone” or “our Sponsor” refer to investment funds affiliated with Blackstone Inc., which, although no individual fund owns a controlling interest in us, together represent our current majority owners.

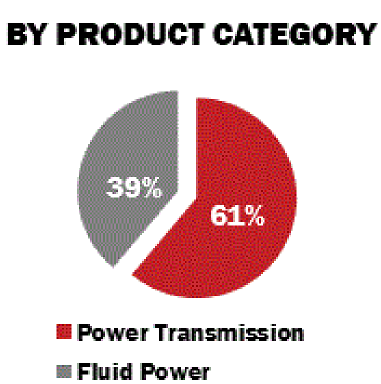
PART I

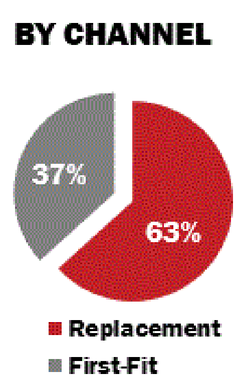
Item 1. Business

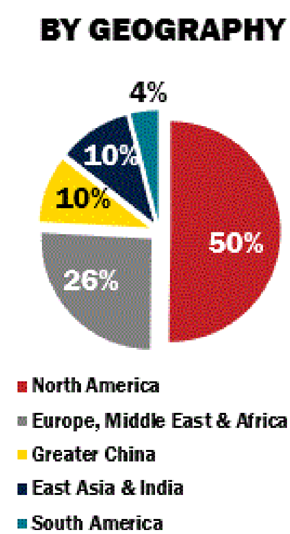
We are a global manufacturer of innovative, highly engineered power transmission and fluid power solutions. We offer a broad portfolio of products to diverse replacement channel customers, and to original equipment ("first-fit") manufacturers as specified components, with the majority of our revenue coming from replacement channels. Our products are used in applications across numerous end markets, including industrial off-highway end markets such as construction and agriculture, industrial on-highway end markets such as transportation, diversified industrial, energy and resources, automotive, 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 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 blue-chip 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 the regions and end markets in which we operate.

Gates' business is well-balanced and diversified across products, channels and geographies, as highlighted in the following charts showing breakdowns of our Fiscal 2022 net sales of $3,554.2 million.







Our History and Recent Developments

On October 1, 1911, Charles Gates, Sr. purchased the Colorado Tire and Leather Company, a manufacturer of steel-studded bands of leather that attached to tires to extend their mileage. In 1917, the Company commercialized the V-belt, which used rubber and woven threading instead of rope belts, which were more commonly used at that time. In 1963, we built the first of many international facilities in Erembodegem, Belgium, followed by Jacarei, Brazil, in 1973. In 1986, we acquired the Uniroyal Power Transmission Company, which included an interest in the Unitta joint venture that laid the groundwork for Gates' growth in the Asia-Pacific region. We have financial and operational control over the joint venture, and as such, consolidate it in our financial statements.

In 1996, Gates was acquired by a publicly held engineering firm based in the United Kingdom ("U.K."), Tomkins plc, which was itself acquired by Onex Partners and the Canada Pension Plan Investment Board, who proceeded to divest certain of

Tomkins plc's businesses under a new parent entity, Pinafore Holdings B.V. Gates was acquired by Blackstone in July 2014 and in 2015 established a new executive leadership team with Ivo Jurek as Chief Executive Officer. In January 2018, Gates completed an initial public offering ("IPO"), listing on the New York Stock Exchange ("NYSE").

Our Solutions

We operate our business on a product-line basis through our two reporting segments - *Power Transmission* and *Fluid Power*. See Note 4 to our audited consolidated financial statements included elsewhere in this report for additional information.

We sell our products under the Gates brand in all of the geographies and end markets we serve, as well as under select customer brands in certain markets. Our power transmission segment includes elastomer drive belts and related components used to efficiently transfer motion in a broad range of applications. Power transmission products represented approximately 61% of our total net sales for Fiscal 2022. Our fluid power segment includes hoses, tubing and fittings designed to convey hydraulic fluid at high pressures in both mobile and stationary applications, and other high-pressure and fluid transfer hoses. Our fluid power products represented approximately 39% of our net sales for Fiscal 2022.

Our power transmission and fluid power products are often critical to the functioning of the equipment, process or system in which they are components, such that the cost of downtime or potential equipment damage is high relative to the cost of our products. Our products are therefore replaced not only as a result of normal wear and tear, but also pre-emptively as part of ongoing, normal maintenance to the broader system.

We have a broad portfolio of both power transmission and fluid power products in the end markets we serve. We have a long history of focusing on customer engagement and training, driving product innovation and providing best-in-class order fulfillment services.

Power Transmission. Our Power Transmission solutions convey power and control motion. They are used in applications in which belts, chains, cables, geared transmissions or direct drives transfer power from an engine or motor to another part or system. Belt-based power transmission drives typically consist of either a synchronous belt or an asynchronous belt (V-belt, CVT belt or Micro-V® belt) and related components (sprockets, pulleys, water pumps, tensioners or other accessories). Within our Power Transmission segment, we offer solutions across the following key application platforms:

- *Stationary drives:* fixed drive systems such as those used in a factory driving a machine or pump, on a grain elevator driving the lift auger or in a distribution center driving automated equipment such as conveyor lines or robotic picking machines;
- *Mobile drives:* drives on a piece of mobile machinery such as a combine harvester or a road compactor;
- *Engine systems:* synchronous drives and related components for cam shafts and auxiliary drives and asynchronous accessory drives for air conditioning ("A/C") compressors, power steering, alternators and starter/generator systems; and
- *Personal mobility:* drives on motorcycles, scooters, bicycles, both traditional and electric, as well as on snowmobiles and other power sports vehicles that are used to transfer power between the power source and the drive wheel(s) or track;

Customers choose power transmission solutions based on a number of factors, including application requirements such as load, speed, gear ratio, temperature, operating environment, ease of maintenance, noise, efficiency and reliability, as well as the support they receive from their suppliers, including application-specific engineering services. Belt-based drive systems have many advantages over other alternatives, as they are typically clean, low-maintenance, lubrication-free, quiet with low-vibration, lightweight, compact, energy-efficient, durable and reliable.

Our belts are classified by their general design into asynchronous and synchronous belts; in addition, we also manufacture metal drive components and assemble certain product kits for the automotive replacement channel. Our belts are made of highly engineered polymer formulations, fabrics or textiles (made from a variety of polymer or natural fibers) and embedded cords for reinforcement (which may be made from polymers such as polyesters or aramids, fiberglass or high performance carbon fibers). Many of these materials are proprietary to Gates.

Asynchronous Belts. Asynchronous belts are our highest-volume products and are used in a broad range of applications. We were a pioneer in the design and manufacturing of V-belts, which draw their name from the shape of their profile. We also manufacture "ribbed" V-belts, which are belts with lengthwise V-shaped grooves, which we market under the Micro-V® name. This design results in a thinner belt for the same drive surface, making it more flexible and offering improved efficiency.

In industrial end markets, asynchronous belts have a wide variety of applications, including use in pump drives, manufacturing lines, HVAC systems, industrial, truck, bus and marine engines, forestry and mining equipment and many other applications. Continuously-variable transmission ("CVT") systems often found in scooters, power sports vehicles and other applications use a specialized V-belt known as a CVT belt. In automotive applications, our asynchronous belts perform functions that include transferring power from the crankshaft to accessory drive components such as the alternator, A/C compressor, power steering system, water pump and, in some vehicles, a belt/starter generator system used in start/stop accessory drive systems to improve fuel economy.

Recently, Gates introduced a Micro-V® platform for engine accessory drive systems. The combination of newly developed material compounds and product design utilizes less material, reduces belt weight and results in lower bending stiffness. These improvements enable tighter pulley configurations and reduced drive bending losses as compared to previous belt technologies; lower losses result in benefits such as reduced energy consumption, CO_2 emissions and heat generation.

Synchronous Belts. Synchronous belts, also known as timing belts, are non-slipping mechanical drive belts. They have molded teeth and run over matching toothed pulleys or sprockets. Synchronous belts experience no slippage and are often used to transfer motion for indexing or timing purposes, as well as for linear positioning and positive drive conveying. They are typically used instead of chains or gears and we believe have a number of advantages over these alternatives, including less noise, no need for lubrication, improved durability and performance and a more compact design.

Examples of industrial applications include use in HVAC systems, food processing and bottling plants, mining and agricultural equipment, automated warehouse systems and robotics. Our synchronous belts are also utilized in personal mobility vehicles, including both traditional and electric motorcycles, bicycles and scooters, applications in which clean, quiet performance is often valued. In automotive applications, our synchronous belts are used to synchronize the rotation of the engine crankshaft with the camshaft due to engine combustion in a valve train system, as well as in electric power steering, parking brake and accessory drive systems which are present in internal-combustion, hybrid and electric vehicles.

In recent years, Gates also launched a high-torque synchronous belt for industrial applications, the PowerGrip® GT®4. This new belt leverages Gates' materials science and process engineering capabilities, utilizing a belt construction that replaces chloroprene-based elastomers with an advanced ethylene elastomer formulation that is more environmentally friendly. It has the highest power-carrying capacity in its segment, a wider operating temperature range and increased chemical resistance, allowing for narrower drives and a broad range of applications to be served with both first-fit and replacement channel customers. During Fiscal 2020, Gates launched the Carbon Drive CDC® synchronous belt designed for commuter bicycle applications and in Fiscal 2022 Gates launched the Carbon Drive Moto X5 synchronous belt designed specifically for mid-motor, sit-down electric scooters and motorcycles typically found in commuting applications in the rapidly evolving Asian market.

Metal Drive Components. We manufacture and sell the tensioners and idlers used in belt drive systems. These products are designed and engineered to work efficiently with our belts. Tensioners are devices that maintain a constant tension in the belt drive system, thereby ensuring proper function and preventing loss of power or system failure. Tensioners typically employ a spring that places pressure along the belt for an intricate hold, while still allowing enough movement for vibration and preventing stretching. Idlers, which sometimes also perform as tensioners, are used to take up extra belt length.

Kits. Our kits for the automotive replacement channel include all of the parts needed by an automotive service shop to perform a replacement of one of our products. Kits are created for specific vehicle makes and models and typically include belts, tensioners and idlers, and will sometimes also include water pumps, which are often replaced simultaneously with a timing belt due to the relatively high labor component in the total cost of a typical replacement. Our kits are convenient for service technicians as they eliminate the need for more complicated product sourcing. On a comparable quantity basis, kits typically sell at a premium to a loose belt and the individual related components.

Our power transmission products are used in a broad range of applications in end markets including off-highway end markets such as construction and agriculture, on-highway end markets such as heavy-duty vehicles, diversified industrial, energy and resources, automotive and personal mobility. The majority of our Fiscal 2022 net sales came from replacement channels, which provide high-margin, recurring revenue streams and are driven by attractive market trends. The bulk of our power transmission replacement business resides in developed regions, in which a large, aging installed base of equipment follows a natural maintenance cycle and is served by well-established distribution channels. For example, a combine harvester in North America can have over 25 high-performance belts that are typically replaced at regular intervals, depending on wear and tear, with end users having access to replacement parts through a large network of distributors. Similarly, in the North American automotive replacement market, maintenance intervals are well defined, and miles driven per vehicle and the average vehicle age have generally been increasing, leading to more wear and tear on vehicles. A smaller portion of our power transmission replacement business is generated in emerging markets, which generally have a smaller base of installed equipment and relatively nascent distribution channels. As they continue to develop, these replacement channels in emerging markets represent a significant long-term opportunity for growth. In addition to our power transmission replacement business, we also serve a wide variety of blue-chip first-fit customers across all of our end markets.

Fluid Power. Our Fluid Power solutions are used in applications in which hoses and rigid tubing assemblies either transfer power hydraulically or convey fluids, gases or granular materials from one location to another. Within our Fluid Power segment, we offer solutions across the following key application platforms:

- *Stationary hydraulics:* applications within stationary machinery, such as an injection molding machine or a manufacturing press;
- *Mobile hydraulics:* applications used to power various implements in mobile equipment used in construction, agriculture, mining and other heavy industries;
- *Vehicle systems:* applications in thermal management, emissions reduction, turbocharger, air intake and other systems for electric, hybrid and internal combustion passenger and commercial vehicles; and
- *Other industrial:* applications in which hoses are used to convey fluids, gases or granular material across several industries such as food and beverage, other process industries, and oil and gas drilling and refining.

Customers choose fluid power solutions based on a number of factors, including application-specific product performance parameters such as pressure and temperature ratings, corrosion and leak resistance, weight, flexibility, abrasion resistance and cleanliness, as well as compliance with standards and product availability. Attributes associated with the supplier, including brand, global footprint and reputation for reliability, quality and service, are also considered.

Hydraulics. Our hydraulics product line is comprised of hoses, tubing and fittings, offered either as standalone products or completed assemblies. Our hydraulic products are key components of hydraulic systems in both stationary and mobile equipment applications. We provide a full selection of hose sizes and construction types for use in a wide variety of working requirements and conditions. Hydraulic hoses are made of elastomers reinforced with steel wire or a textile-based yarn, and typically operate at very high pressures, often in extreme environmental conditions. Hoses are designed for use in specific mechanical applications and require high levels of quality and durability.

Our hydraulic fittings and tubing are engineered to match the product performance of our hydraulic hoses. The high-pressure nature of hydraulic systems requires these products have high levels of performance similar to those found in our hydraulic hoses. The ultimate performance of a hydraulic assembly, in which our products function as part of a hydraulic circuit, depends not only on how well the components are made, but also on how well they complement each other. In order to ensure compatibility with numerous applications, our hydraulic fittings are manufactured in a wide assortment of sizes, crimping systems and materials, and are protected by a range of patents. Our hydraulic products and assemblies are used in construction, agricultural and forestry equipment, as well as in food and other processing lines and stationary machinery.

In recent years, Gates introduced a new premium product family consisting of hydraulic hoses that are lighter weight and more flexible. Made with a high-performance reinforcement and robust, abrasion-resistant cover, the MXT line of hydraulic hose is comprised of universally applicable, high-performance products that meet the needs of a wide range of applications. Subsequently, we launched the MXG line of hydraulic hose, a flexible, light-weight solution with increased durability and temperature performance, designed to replace conventional spiral hoses typically used in the most demanding applications. We also launched a smart e-crimper, which is a machine used to attach fittings to hydraulic hoses. In addition to convenient, web-enabled access to training content and product crimp specs, this new crimper can be used with Gates' intuitive mobile eCrimp app, which underwent a comprehensive update in Fiscal 2020. In Fiscal 2022, we launched the ProV hose family in Europe, which is an addition to our Pro Series product portfolio that leverages technologies developed and first launched in our MXT and MXG product lines.

Thermal and Emissions Management. Our thermal and emissions management and related products perform a variety of fluid conveyance, emissions reduction and efficiency improvement functions in electric, hybrid and internal combustion passenger and commercial vehicles. In electric applications, Gates offers hose and water pump solutions for the thermal management system regulating the battery, inverter, motor(s) and passenger compartment. In internal combustion applications, Gates primarily provides thermal management hose and water pumps for engine cooling, selective catalytic reduction hoses that are part of systems that reduce harmful emissions from diesel engines and hoses for functions that improve air intake and engine efficiency.

Industrial Hose. Our industrial hoses are used to transfer a wide range of substances - chemicals, food, beverages, petroleum, fuels, bulk materials, water, steam and air - to meet the requirements of a diverse range of applications, including manufacturing, mining, oil and gas drilling, marine, agriculture, industrial cleaning and construction. Our application engineering teams work with customers to assist them in selecting the appropriate hose solution to safely meet their operational needs. We leverage our materials science expertise to design hoses that perform at varying pressures and levels of resistance to chemicals, oil, abrasion, ozone, flame and both hot and cold temperatures. For performance in extreme environments, many of our industrial hoses feature both crush-resistant and flexible designs. Gates industrial hoses are highly engineered to meet or exceed a multitude of industry standards and certifications, and are offered in a range of diameters, lengths and colors to allow customers to differentiate the hoses in applications. We also offer a wide range of couplings to provide complete assembly solutions.

Our fluid power products are used in numerous applications in end markets including off-highway end markets such as construction and agriculture, on-highway end markets such as heavy-duty vehicles, diversified industrial, energy and resources, automotive and personal mobility. The largest portion of our Fiscal 2022 fluid power revenue came from replacement markets. Within these replacement markets, the majority of our revenue came from industrial applications.

Our Diverse Markets

We participate in many sectors of the industrial and consumer markets. Our products play essential roles in a diverse range of applications across a wide variety of end markets ranging from harsh and hazardous off-highway applications such as agriculture and construction, and diversified industrial applications such as automated manufacturing and logistics systems, to everyday consumer applications such as printers, power washers, automatic doors and vacuum cleaners. Virtually every form of transportation, ranging from internal combustion, hybrid and electric trucks, buses and automobiles, to personal mobility vehicles, including motorcycles, bicycles, and snowmobiles, uses our products.

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. Key indicators include industrial production, industrial sales and manufacturer shipments.

Our products are sold in over 130 countries across our four commercial regions: (1) the Americas; (2) Europe, Middle East & Africa ("EMEA"); (3) Greater China; and (4) East Asia & India. We have a long-standing presence in each of these regions.

Our Channels

We sell our power transmission and fluid power products both as replacement components and as specified components on original equipment to customers worldwide. During Fiscal 2022, approximately 63% of our net sales were generated from replacement channels and 37% from first-fit channels globally. Our mix of replacement channel sales to first-fit sales varies by region based on our market strategy and the maturity of the equipment fleet and channel. For example, in emerging markets such as China, our business is characterized by a higher first-fit presence, given the relatively underdeveloped replacement channels. We believe that ultimately our first-fit presence in these emerging markets will allow us to better develop the replacement channels as they mature over time. By contrast, in North America and EMEA, where there are long-established replacement markets, approximately 66% and 69% of our Fiscal 2022 net sales, respectively, were derived from these higher-margin replacement channels. In the vast majority of the applications we serve, we do not need to have been the first-fit provider to serve these applications in the replacement markets.

Replacement. The majority of our sales are generated from customers in replacement channels, who primarily serve a large base of end users with installed equipment that follows a natural maintenance cycle. Our ability to help replacement channel partners maximize revenue is an important part of our value proposition. These customers miss sales opportunities if a required product cannot be obtained quickly, either from a short-lead time order or on-hand inventory.

In addition to our products, we offer digital tools and other content to distributors, installers and end users of equipment containing our products. We also assist with customer training on product installation and early identification of wear-and-tear on components, which helps drive sales for our channel customers while mitigating the risk of equipment failure for end users.

First-Fit. We work closely with our first-fit customers by providing application engineering expertise to assist them with equipment design and selecting the right products to optimize performance. Close interactions between our research and development (“R&D”) organization and customer technical teams provide input into our innovation and product development processes. We selectively participate in first-fit projects, focusing on opportunities where we are able to differentiate with technology and innovative solutions.

Customers

We maintain long-standing relationships with many customers, who range from local distributors with one location to large, global manufacturers of equipment. No single customer accounted for more than 10% of our Fiscal 2022 net sales.

Sales and Marketing and Distribution Organization

Our sales and distribution operations are structured to serve our customers efficiently across the globe. We have field representatives who possess local knowledge of customers and their product and application requirements, giving us the capability to meet our customers’ product availability needs on short lead times. Our global sales and service support team helps reinforce customer and distributor relationships by focusing on end markets and customers.

Manufacturing

Our commercial capabilities are complemented by our “in-region, for region” manufacturing footprint, which generally allows us to manufacture products in close proximity to our customers around the world. This model also yields advantages in supply resiliency, avoidance of long logistics routes and associated greenhouse gas (“GHG”) emissions and foreign exchange/tariff costs. We have power transmission and fluid power operations in each commercial region and typically manufacture products for both first-fit customers and replacement customers in the same factory, which provides for sharing of raw material inputs, improved factory loading and demand leveling, as well as optimization of capital expenditures. We operate a large number of manufacturing facilities and service centers as well as several major technical centers giving us a presence in 30 countries throughout the world. Our in-country deployment of manufacturing and technical resources gives us the capability to meet customer needs rapidly and satisfy regional variations in product preference, while our scale allows us to service global customers on a world-wide basis.

Competition

We operate in competitive markets and industries that are also very fragmented. We offer our products and solutions across numerous and varied end markets and geographies through over 100 locations in 30 countries. Consequently, we have many competitors across our various markets and product offerings. These competitors and the degree of competition vary by product line, geography, end market and channel. Although each of our markets and product offerings has many competitors, no single competitor competes with us across all of our products, solutions, channels and end markets. Our global presence and the importance of product availability make it difficult for smaller, regional and low-cost country manufacturers to penetrate our markets. We differentiate ourselves on the basis of product performance and quality, breadth of portfolio, customer support and training, service level, fill rates and product availability.

Research, Development and Intellectual Property

Advanced R&D is performed primarily at certain R&D centers in the U.S. and Western Europe. These teams focus on developing advanced materials, product constructions and manufacturing processes in support of new and improved products. We also have commercialization engineering teams in all of our regions that are located close to customers in support of their businesses.

As of December 31, 2022, we held more than 2,000 patents and patent applications and 3,400 trademarks in various jurisdictions, and have elected to protect a variety of technologies and processes as trade secrets. While no individual patent or group of patents, taken alone, is considered critical to our business, collectively our patents and trademarks provide meaningful protection for our products and technical innovations.

Materials and Suppliers

We use a wide variety of materials, resulting in a highly diversified mix of inputs, which are sourced from a variety of suppliers around the world. Generally, we seek to obtain materials in the regions where our products are manufactured to minimize lead times, as well as transportation and other costs. We continually seek to manage commodity and raw material costs using various strategies, including working with our customers and suppliers on pricing and costs, exploring material substitution opportunities, combining purchase requirements across regions and changing or qualifying new suppliers when appropriate.

Government Regulation

Our operations, products and properties are subject to extensive U.S. and foreign federal, state, local, and provincial laws and regulations relating to health, safety and environment (“HSE”) protection, including laws and regulations governing air emissions, wastewater discharges, waste management and disposal, substances in products, trade control laws, anti-corruption laws, data protection and privacy laws, and workplace health and safety, as well as the investigation and clean-up of contaminated sites. Under certain environmental laws, the obligation to investigate and remediate contamination at a facility may be imposed on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. We are currently performing environmental investigations and/or remediation at a number of former and current facilities in the U.S. and Canada and are incurring costs in relation to a number of offsite waste disposal sites. For more information, see “Item 1A. Risk Factors - Risks Related to Legal and Regulatory Matters”.

Human Capital

As of December 31, 2022, we employed approximately 15,000 full time employees worldwide. Approximately 7,000 of our employees are located in North America, 4,200 in EMEA, 3,100 in Greater China and East Asia & India, and 700 in South America. Approximately 68% of our work force consists of production employees, while approximately 24% of our global workforce was female and 76% male. Of approximately 1,490 managerial employees, 21% were female.

Some of our employees are members of labor unions, and over many years we have been able to maintain successful relationships with the unions and employment organizations. To date, employee relations have been flexible and constructive as we continue to pursue lean manufacturing improvements in our plants. Gates employs agency contractors, temporary employees and contract employees as a relatively small percentage of our workforce. The number of associates in these categories typically varies with demand on our factories and distribution centers. Gates employs a small number of part-time associates across the globe.

Oversight and Governance

Our board of directors is actively engaged in the oversight of the Company's human capital management, including reviewing the following topics: the Company's employee health and well-being programs; the Company's stock incentive plans; the Company's performance relative to the acquisition and retention of talent, leadership and development programs, and other initiatives and plans to help ensure that we have talent positioned to deliver on our strategy.

Health and safety

We care about our employees and we believe that our commercial success is linked to a safe and healthy workforce. We are therefore committed to responsible business practices through the establishment, implementation, and maintenance of the Gates Global HSE Standards Manual. We strive for zero injuries and an incident-free workplace and have achieved significant progress towards this goal through targeted risk reduction activities, improved case management, increased accountability to corrective action identification and closure, and more effective safety observation programs.

Demonstrating our commitment to safety, beginning in February 2020, we mobilized a centralized crisis response team that urgently developed and implemented countermeasure actions across the globe for what became the novel coronavirus ("COVID-19") pandemic. The crisis response team continues to meet on a periodic basis to monitor COVID-19 and other impacts globally and to ensure continued compliance with local government mandates and guidance provided by health authorities. In Fiscal 2022, we continued to closely manage the COVID-19 situation, especially in China, with our ongoing focus on employee safety and well-being, as well as compliance with local regulations. We implemented quarantine protocols, office and production facility shut downs when required, working from home arrangements, travel suspensions, and frequent and extensive disinfecting of our workspaces. We may take further actions if required or recommended by government authorities or if we determine them to be in the best interests of our employees, customers, and suppliers.

Total rewards

Our compensation philosophy is to offer a compensation program that enables us to attract, motivate, reward and retain high-caliber employees who are capable of creating and sustaining value for our shareholders over the long-term and to design compensation and benefit programs that provide a fair and competitive compensation opportunity in order to appropriately reward employees for their contributions to our success. Globally, we offer the opportunity to earn short-term and long-term incentive awards to eligible employees, including manufacturing incentive programs to many of our production employees.

Employee development and training

Gates is committed to developing and unlocking the potential of our people and we make significant investments in training and professional development. Our learning and development framework supports the development of leadership and professional skills in three ways: on-the-job, learning from others, and participating in formal training programs. Some of the specific global and regional development experiences we offer include a global mentoring program that promotes a diverse and inclusive culture and knowledge transfer opportunities between our mentors and mentees; a structured succession planning process that identifies key talent and develops our employees to continue working toward their career goals and early career programs designed to develop talent in different areas of the business; for example, engineering, commercial and human resources. For our production employees, we provide skills-based training and certification opportunities.

Through its Compensation Committee, our board of directors also oversees the management continuity planning process, including reviewing and evaluating the succession plans relating to our chief executive officer and other executive officer positions and makes recommendations to the board with respect to the selection of individuals to occupy these positions.

Diversity, equity and inclusion

The Gates management team is committed to creating and sustaining an inclusive workplace that understands and values individual differences across demographics, experiences and perspectives. We strive to foster an environment where every employee has an equal opportunity to be heard, can contribute their thoughts, and be recognized for their individual efforts. We want to ensure that collaborative and respectful business practices in a performance-based, supportive environment enable every employee to realize their career ambitions. To that end, we have a Diversity, Equity & Inclusion ("DE&I") Steering Committee, consisting of executive leadership, which works with our DE&I Council, consisting of highly talented and collaborative non-executive team members, to foster a culture of belonging that embraces our workforce's unique backgrounds, talents, and viewpoints. In 2022, the DE&I Council formalized three main committees to drive our multi-year DE&I strategy and deliver awareness and best practices: Communications, Culture & Branding; Diversity Recruitment; and Career & Leadership Development.

The DE&I Council also developed a framework to launch three Business Resource Groups in North America (Asian-American, LGBTQ+, and Veterans) to continue creating an environment that encourages relationship building and accepts each of our employees' individual attributes and experiences. Our on-going efforts aim to drive awareness on the importance of DE&I and engage employees across our communities through a variety of partnerships and outreach to identify opportunities for meaningful connection and support of local efforts.

Additionally, the charter for the Nominating and Governance Committee of our board of directors requires that such committee review and make recommendations regarding the composition and size of the board to ensure the board has the requisite expertise and its membership consists of persons with sufficiently diverse and independent backgrounds.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's website at http://www.sec.gov. Our SEC filings are also available on our website, free of charge, at http://investors.gates.com as soon as reasonably practicable after they are filed with or furnished to the SEC.

We maintain an internet site at http://www.gates.com. We use our website 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 when you enroll your email address by visiting the "Investor Resources—Email Alerts" section of our website at investors.gates.com/investor-resources. Our website and the information contained on or connected to that site are not incorporated into this report.

Item 1A. Risk Factors

The risk factors noted in this section, and other factors noted throughout this annual report, describe certain risks and uncertainties that could cause our actual results to differ materially from those contained in any forward-looking statement and should be considered carefully in evaluating our company and our business.

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have a material impact on our business, financial condition and results of operations. We have implemented our Enterprise Risk Management ("ERM") process to identify and address significant risks. Our ERM process is a company-wide initiative that is designed with the intent of prioritizing risks and allocating appropriate resources to address such risks.

Management has identified and prioritized critical risks based on the severity and likelihood of each risk and assigned risk owners to address each major identified risk area and lead action plans to monitor and mitigate risks, where possible. Our Board of Directors provides oversight of the ERM process and regularly reviews identified critical risks. The Audit Committee also reviews major financial risk exposures and the steps management has taken to monitor and control them.

Our goal is to proactively manage risks in a structured approach and in conjunction with the strategic planning process, with the intent to preserve and enhance shareholder value. However, these and other risks and uncertainties could cause our results to vary materially from recent results or from our anticipated future results. The risk factors and uncertainties described below, together with information incorporated by reference or otherwise included elsewhere in this annual report, should be carefully considered. Although the risks are organized by headings, and each risk is discussed separately, many are interrelated. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect our business.

Summary of Risk Factors

We operate in a changing global environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our business, financial condition and results of operations. The following is a summary of some of these risks and uncertainties. This summary should be read together with the more detailed description of each risk factor below.

Summary of Risks Related to Economic and Market Conditions

- We are subject to economic, political and other risks associated with international operations that could adversely affect our business and our strategy to capitalize on our global reach.
- We may be unable to obtain raw materials or other manufacturing inputs at favorable prices in sufficient quantities, or at the time we require them.
- We may experience adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key channel partners.
- Catastrophic events, including global pandemics such as the COVID-19 pandemic, could cause severe disruption in the global economy and may have, and continue to have, an adverse impact on our business.

Summary of Risks Related to Our Business and Industry

- We are dependent on the continued operation of our manufacturing facilities, supply chains, distribution systems and information technology systems, and a major disruption or closure could have a material adverse effect on our business
- We may not be able to accurately forecast demand or meet significant increases in demand for our products.
- We have taken, and continue to take, cost-reduction and other restructuring actions that may expose us to additional risk, and we may not be able to maintain the level of cost reductions that we have achieved.
- Our revenue growth may be dependent on market acceptance of new product introductions and product innovations.
- Longer lives of products used in our end markets may adversely affect demand for some of our replacement products.
- Competition in the replacement market in emerging markets may limit our ability to grow in those markets.
- We may pursue strategic transactions, including acquisitions, divestitures, joint ventures, strategic alliances or investments, which could create risks and present unforeseen integration obstacles or costs.
- We have investments in joint ventures that limit our ability to manage third-party risks associated with these ventures.
- The loss or financial instability of any significant customer could adversely affect our business.
- Societal responses to sustainability issues, including those related to climate change, could adversely affect our business and performance, including indirectly through impacts on our customers and value chain partners.

- We may not be able to maintain and enhance our strong brand on which we depend.
- Pricing pressures from our customers may materially adversely affect our business.

Summary of Risks Related to Cybersecurity and Information Systems

- Cyber-security vulnerabilities, threats and more sophisticated and targeted computer crimes could pose a risk to our systems, networks, products, solutions, services and data.
- Information systems failure may disrupt our business and result in financial loss and liability to our customers.
- Global privacy, data protection and data security requirements are highly complex, evolving rapidly, and may increase our costs to comply.

Summary of Risks Related to Legal and Regulatory Matters

- Existing or new laws and regulations, including but not limited to those relating to HSE and sustainability matters, may prohibit, burden, restrict or make significantly more costly the sale of our products.
- Our business is subject to evolving corporate governance and public disclosure regulations and expectations, including with respect to environmental, social and governance ("ESG") matters, that could expose us to numerous risks.
- We are subject to anti-corruption laws in various jurisdictions, as well as other laws governing our international operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses.
- We may be subject to recalls or product liability claims, or may incur costs related to product warranties.
- Failure to develop, obtain, adequately protect and enforce our intellectual property rights could adversely affect our business, and third parties could allege that our products infringe on their intellectual property rights, adversely affecting our business.
- We are subject to risks from litigation, legal and regulatory proceedings and obligations, and our insurance may not provide coverage or may not fully cover future losses we may incur related to these proceedings and obligations or otherwise.

Summary of Risks Related to Human Capital Management

- If we lose our senior management or key personnel, our business may be materially and adversely affected.
- We may be materially adversely impacted by work stoppages and other labor matters, including labor shortages and turnover.
- Certain of our defined benefit pension plans are underfunded, and additional cash contributions may be required.

Summary of Risks Related to Tax Matters

- Changes in our effective tax rate or additional tax liabilities could adversely impact our net income.
- Changes in tax laws could result in additional tax liabilities.
- Relevant tax authorities may no longer treat us as being exclusively a resident of the U.K. for tax purposes.

Summary of Risks Related to Our Indebtedness

- We are subject to risks related to our indebtedness. These include risks related to raising additional capital, paying our debts and meeting our indebtedness service obligations, interest rate risk, operating and financial restrictions on us and our subsidiaries, and the risk of failure to comply with the agreements relating to our outstanding indebtedness.

Summary of Risks Related to the Ownership of our Ordinary Shares

- We are subject to risks specific to ownership of our ordinary shares, including those related to being a "controlled company" within the meaning of the rules of the NYSE, adverse changes in the market value of our shares, lack of current plans for dividend payments, risks related to future issuances of shares, and risks specific to holding shares in a U.K. company.

Risks Related to Economic and Market Conditions

We are subject to economic, political and other risks associated with international operations that could adversely affect our business and our strategy to capitalize on our global reach.

A substantial portion of our operations are conducted and located outside the U.S. For Fiscal 2022, approximately 61% of our net sales originated from outside of the U.S. We have manufacturing, sales and service facilities spanning five continents and sell to customers in over 130 countries. Moreover, a significant amount of our manufacturing functions and sources of our raw materials and components are from emerging markets such as China, India and Eastern Europe. Accordingly, our business and results of operations, as well as the business and results of operations of our vendors and customers, are subject to risks associated with doing business internationally, including:

- changing economic conditions in the global and regional end markets we serve, which could impact the level of demand for our products, as a substantial portion of our revenues are derived from customers in cyclical industries that typically are adversely affected by downward economic cycles;
- macroeconomic factors beyond the Company's control, such as the current volatility around material and logistics availability, inflation, supply chain and labor challenges;
- political, social or economic instability, civil unrest, terrorist attacks, conflicts or war (such as the ongoing conflict between Russia and Ukraine), public health crises and natural disasters (including as a result of climate change) that may disrupt economic activities in affected countries;
- imposition of new or additional sanctions, tariffs or other trade restrictions or embargoes, as well as import and export licensing and control requirements;
- volatility of global financial markets, including persisting concerns regarding the debt burden of certain European countries, interest rate fluctuations and hyperinflation or deflation in the countries in which we operate;
- exchange rate fluctuations, as well as currency restructurings, the imposition of currency restrictions, and limitations on repatriation of earnings, that could affect our ability to realize a profit or our ability to readily access global cash balances;
- partial or total expropriation by local, state or national governments;
- the ability to comply with or effect of complying with complex and changing laws, regulations and policies of foreign governments, including differing and, in some cases, more stringent labor, sustainability and environmental regulations;
- differing local product preferences and product requirements; and
- difficulties involved in staffing and managing widespread operations, including challenges in administering and enforcing corporate policies, which may be different than the normal business practices of local cultures.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable. Certain regions, including Latin America, Asia, Eastern Europe, the Middle East and Africa, are generally more economically and politically volatile than the U.S. and as a result, our operations in these regions could be subject to more significant fluctuations in sales and operating income. Further, our industry has been impacted by the ongoing uncertainty surrounding tariffs and international trade relations, particularly with China, and it is difficult for us to predict the impact future trade measures will have on our business and operations in the future. Because a significant percentage of our operating income in recent years has come from these regions, adverse fluctuations in the operating results in these regions could have a disproportionate impact on our results of operations in future periods.

While we have adopted certain operational and financial measures to reduce the risks associated with doing business internationally, any one of the risks listed above may impact us or require us to modify our business practices and could have a material adverse effect on our financial condition and results of operations.

We may be unable to obtain raw materials or other manufacturing inputs at favorable prices in sufficient quantities, or at the time we require them.

We purchase our energy, steel, aluminum, rubber-based materials, chemicals, polymers and other key manufacturing inputs from outside sources. We do not traditionally have long-term pricing contracts with raw material suppliers. The costs of these raw materials have been volatile historically and are influenced by factors that are outside of our control. In recent years, the prices and availability of energy, metal alloys, polymers and certain other of our raw materials have fluctuated significantly, exacerbated by the current inflationary environment and global disruptions such as the Russia-Ukraine conflict. If we are unable to pass increases in the costs of our raw materials on to our customers or we experience a lag in our ability to pass increases to our customers, or we are otherwise unable to offset these cost increases, our operating margins and results of operations may be materially adversely affected.

Additionally, our businesses compete globally for key production inputs. The availability of qualified suppliers and of key inputs may be disrupted by market disturbances or any number of geopolitical factors, including political unrest and significant weather events. Such disruptions may require additional capital or operating expenditure by us or force reductions in our production volumes. In the event of an industry-wide general shortage of certain raw materials or key inputs, or a shortage or discontinuation of certain raw materials or key inputs from one or more of our suppliers, we may not be able to arrange for alternative sources of certain raw materials or key inputs. Any such shortage may materially adversely affect our competitive position versus companies that are able to better or more cheaply source such raw materials or key inputs.

We may experience adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key channel partners.

Certain of our businesses sell a significant amount of their products to key channel partners, including distributors, which have valuable relationships with end users. Some of these channel partners may also sell our competitors' products, and if they favor competing products for any reason they may fail to market our products effectively. Adverse changes in our relationships with these channel partners, or adverse developments in their financial condition, performance or purchasing patterns, could adversely affect our business, financial condition and results of operations. The levels of inventory maintained by our distributors and other channel partners, and changes in those levels, such as destocking, can also significantly impact our results of operations in any given period. In addition, the consolidation of channel partners and customers in certain of our end markets could adversely impact our profitability.

Catastrophic events, including global pandemics such as the COVID-19 pandemic, could cause severe disruption in the global economy and may have, and continue to have, an adverse impact on our business.

The occurrence of a major earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics (including the COVID-19 pandemic), cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, could adversely affect our employees, our systems, our ability to produce and distribute our products, and our reputation. For example, the outbreak and spread of COVID-19 has and in some geographies, such as China, continues to have adverse effects on our business, operating results, cash flows and/or financial condition, including, without limitation, due to the impact of: disruptions in service within our operations, among our key suppliers and supply chains, or other third parties; facility closures or disruptions; challenges in product delivery; and changes and challenges to our workforce. A catastrophic event resulting in the destruction or disruption of our workforce, our systems, our ability to produce and distribute our products, any of our data centers or our critical business or information technology systems could adversely affect our ability to conduct normal business operations and our operating results or cash flows.

Risks Related to Our Business and Industry

We are dependent on the continued operation of our manufacturing facilities, supply chains, distribution systems and information technology systems, and a major disruption or closure could have a material adverse effect on our business.

If any of our manufacturing facilities, supply chains, distribution systems or technology systems were to experience a catastrophic loss or ongoing closure or disruption due to adverse weather, natural or man-made disasters (including as a result of climate change), labor unrest, public health crises, terrorist attacks, cyberattacks, significant mechanical failure of our equipment or other catastrophic event, it could result in interruption of our business, a potential loss of customers and sales, or significantly increased operating costs, including large repair and replacement expenses. The third-party insurance coverage that we maintain will vary from time to time in both type and amount depending on cost, availability and our decisions regarding risk retention, and may be unavailable or insufficient to protect us against losses. Additionally, we have in the past and may in the future make investments in new or existing manufacturing facilities that could lead to disruption or closure, or to consolidate manufacturing facilities to adapt our production capacity to changing market conditions. The costs of such disruptions or closures may have a material adverse effect on our business, financial condition and results of operations.

We may not be able to accurately forecast demand or meet significant increases in demand for our products.

Certain of our businesses operate with short lead times, and we order raw materials and supplies and plan production based on discussions with our customers and internal forecasts of demand. If we are unable to accurately forecast demand for our products, in terms of both volume and specific products, or react appropriately to abrupt changes in demand, we may experience delayed product shipments and customer dissatisfaction. If demand increases significantly from current levels, both we and our suppliers may have difficulty meeting such demand, particularly if such demand increases occur rapidly. Additionally, we may carry excess inventory if demand for our products decreases below projected levels. Failure to accurately forecast demand or meet significant increases in demand could have a material adverse impact on our business, financial condition and operating results.

We have taken, and continue to take, cost-reduction and other restructuring actions that may expose us to additional risk and we may not be able to maintain the level of cost reductions that we have achieved.

We have been implementing cost reduction and restructuring actions in all of our businesses and have discontinued product lines, consolidated or relocated manufacturing operations and reduced our employee population in some locations. The impact of these cost-reduction and restructuring actions on our sales and profitability may be influenced by many factors and we may not be able to maintain the level of cost savings that we have achieved. In connection with the implementation and maintenance of our cost reduction and restructuring measures, we may face delays in anticipated workforce reductions, a decline in employee morale and a potential inability to meet operational targets due to an inability to retain or recruit key employees.

Our revenue growth may be dependent on market acceptance of new product introductions and product innovations.

The markets in which we operate are subject to technological change. Our long-term operating results depend upon our ability to continually develop, introduce, and market new and innovative products, to modify existing products, to respond to technological change, and to customize certain products to meet customer requirements and evolving sustainability and industry standards. The development of new product introductions and product innovations may require significant investment by us. There are numerous risks inherent in this process, including the risks that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. For example, the increased adoption of electric vehicles may affect certain of the end markets that we serve and could alter the application platforms in which we offer solutions. If we are unable to adapt to technological changes, including by developing and marketing new products, our business and results of operations may be adversely affected.

Longer lives of products used in our end markets may adversely affect demand for some of our replacement products.

The average useful life of certain products in our end markets has increased in recent years due to innovations in technologies and manufacturing processes. The longer product lives allow end users to replace parts less often. As a result, a portion of sales in the replacement markets we serve may be displaced. If this trend continues, it could adversely impact our replacement market sales.

Competition in the replacement market in emerging markets may limit our ability to grow in those markets.

In emerging markets such as China, India, and Eastern Europe, the replacement markets are still nascent as compared to those in more developed nations. In these markets, we have focused on building a first-fit presence in order to establish brand visibility in the end markets we serve. However, as the replacement markets in these regions grow, our products may not be selected as the replacement product, although we are the first-fit provider. If we are not able to convert our first-fit presence in these emerging markets into sales in the replacement end market, there may be a material adverse effect on our replacement end market growth potential in these emerging markets.

We may pursue strategic transactions, including acquisitions, divestitures, joint ventures, strategic alliances or investments, which could create risks and present unforeseen integration obstacles or costs.

We consider strategic transactions on an ongoing basis, and regularly discuss potential acquisitions of complementary businesses or assets to expand our product portfolio and geographic presence, certain of which may be material. Strategic transactions, particularly investments in emerging markets, involve legal, economic, operational and political risks. We also encounter risks in the selection of appropriate investment and disposal targets, negotiation and execution of transactions, and integration of acquired businesses or assets.

Our efforts to integrate acquired businesses or assets could be affected by a number of factors beyond our control, such as general economic conditions and increased competition. In addition, the process of integrating these businesses or assets could cause the interruption of, or loss of momentum in, the activities of our existing business, diversion of management’s attention, disruption as a result of infrastructure and information technology conversions, and other challenges, such as difficulty integrating key personnel and retaining customers and suppliers.

Pursuing strategic transactions could involve the use of a substantial amount of cash, assumption of liabilities and indemnification obligations, costly regulatory requirements, incurrence of a substantial amount of debt or issuance of a substantial amount of equity, and we may not be able to recoup our investment or achieve the synergies and economic benefits that we anticipated. Failure to successfully identify, consummate or integrate strategic transactions in a timely and cost-effective manner could have a material adverse effect on our business, financial condition and results of operation.

We have investments in joint ventures that limit our ability to manage third-party risks associated with these ventures.

We have investments in joint ventures that may involve risks such as the possibility that a co-venturer in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. Actions by a co-venturer or other third party could expose us to claims for damages, financial penalties and reputational harm, any of which could adversely affect our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture. Such a guarantee or indemnity may be on a joint and several basis with a co-venturer, in which case we may be liable in the event that our co-venturer defaults on its guarantee obligation. The non-performance of a co-venturer’s obligations may cause losses to us in excess of the capital we have invested or committed. Although our joint ventures may generate positive cash flow, in some cases we may choose to leave cash in the joint venture rather than distribute it, either to support future investments within the joint venture or because it may be costly to distribute.

The loss or financial instability of any significant customer or customers could adversely affect our business.

A substantial part of our business is concentrated with a few customers, and we have certain customers that are significant to our business. During Fiscal 2022, our top ten customers accounted for approximately 23% of our consolidated net sales and accounted for approximately 29% of our trade accounts receivable balance as of December 31, 2022, and our largest customer accounted for approximately 4% and 15% of our Fiscal 2022 consolidated net sales and trade accounts receivable balance as of December 31, 2022, respectively. The loss of one or more of these customers or other major customers, a deterioration in our relationship with any of them, or their failure to pay amounts due to us could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our contracted backlog is comprised of future orders for our products from a broad number of customers. Defaults by any of the customers that have placed significant orders with us could have a significant adverse effect on our net sales, profitability and cash flow. Our customers may in the future default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons deriving from the general economic environment or circumstances affecting those customers in particular. If a customer defaults on its obligations to us, it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Societal responses to sustainability issues, including those related to climate change, could adversely affect our business and performance, including indirectly through impacts on our customers and value chain partners.

Concerns over environmental, safety, social and other sustainability issues, including the impacts of climate change, have led and will continue to lead to governmental efforts around the world to reduce or mitigate those issues. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from sustainability concerns, which could add substantial costs to our operations. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. There is also a risk that we are unable to meet our sustainability objectives or the increasing expectations of our customers, suppliers, employees, shareholders, and other stakeholders. Our efforts to take these risks into account, including by investing in sustainability initiatives, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

We may not be able to maintain and enhance our strong brand on which we depend.

Our brand has worldwide recognition and our success is linked to our ability to maintain and enhance our brand image and reputation. In particular, we believe that maintaining and enhancing the Gates brand is critical to maintaining and expanding our customer base. Maintaining, promoting and enhancing our brand may require us to make substantial investments in areas such as product innovation, product quality, intellectual property protection, marketing and employee training, and these investments may not have the desired impact on our brand image and reputation. Moreover, environmental, social and governance topics and activities have been the subject of increased focus by certain investors and regulators. Our business could be adversely impacted if we fail to achieve any of these objectives or if the reputation or image of our brand is tarnished or receives negative publicity. In addition, adverse publicity about regulatory or legal action against us could damage our reputation and brand image and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If we are unable to maintain or enhance the image of our brand, it could materially adversely affect our business, financial condition and results of operations.

Pricing pressures from our customers may materially adversely affect our business.

We generate strong margins by selling premium products at premium prices. Accordingly, our margins could suffer if our customers are no longer willing to pay a premium for our product and service offerings. We face the greatest pricing pressure from our customers in the automotive first-fit end market. Virtually all vehicle manufacturers seek price reductions in both the initial bidding process and during the term of the award. We are also, from time to time, subject to pricing pressures from customers in our other end markets. If we are not able to offset price reductions through improved operating efficiencies and reduced expenditures or new product introductions, those price reductions may have a material adverse effect on our results of operations.

Risks Related to Cybersecurity and Information Systems

Cyber-security vulnerabilities, threats and more sophisticated and targeted computer crimes could pose a risk to our systems, networks, products, solutions, services and data.

Increased global cyber security vulnerabilities, threats, computer viruses and more sophisticated and targeted cyber-related attacks (such as the recent increasing use of “ransomware” and phishing attacks), as well as cyber-security failures resulting from human error, catastrophic events (such as fires, floods, hurricanes and tornadoes), and technological errors, pose a risk to our systems, products and data as well as potentially to our employees’, customers', partners', suppliers' and third-party service providers' systems and data. An attack could result in security breaches, theft, lost or corrupted data, misappropriation of sensitive, confidential or personal data or information, loss of trade secrets and commercially valuable information, production downtimes and operational disruptions. We attempt to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, but we remain potentially vulnerable to additional known or unknown threats. There is no assurance the financial or operational impact from such threats will not be material.

Information systems failure may disrupt our business and result in financial loss and liability to our customers.

We rely on information technology networks and systems, including the Cloud and third-party service providers, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. These information technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures or computer viruses. If these information technology systems suffer severe damage or disruption and the issues are not resolved in a timely manner, our business, financial condition and operations could be materially adversely affected.

Global privacy, data protection and data security requirements are highly complex, evolving rapidly, and may increase our costs to comply.

To conduct our operations, we regularly move data across national borders, and consequently we are subject to a variety of continuously evolving and developing laws and regulations in the U.S. and abroad regarding privacy, data protection and data security. The scope of the laws that may be applicable to us is often uncertain and may be conflicting, particularly with respect to foreign laws. For example, the European Union's General Data Protection Regulation ("GDPR") greatly increased the jurisdictional reach of European Union law and added a broad array of requirements for handling personal data, including the public disclosure of significant data breaches, and many other countries and several states in the U.S. have adopted similar legislation. Other countries such as China, India, Thailand, Brazil and Argentina have enacted or are enacting data localization and privacy laws that require data to stay within their borders, as well as requiring that data subjects provide clear and concise consent on how collected data will be utilized. These evolving compliance and operational requirements impose significant costs that are likely to increase over time as the breadth and complexity of regulations continues to evolve internationally. We continue to monitor these developments and adjust our data handling practice in accordance with applicable law.

Risks Related to Legal and Regulatory Matters

Existing or new laws and regulations, including but not limited to those relating to HSE and sustainability matters, may prohibit, burden, restrict or make significantly more costly the sale of our products.

Our operations, products and properties are subject to extensive foreign, federal, state, local and provincial laws and regulations relating to HSE and sustainability matters around the world. HSE and sustainability laws vary by jurisdiction but generally govern air emissions, wastewater discharges, material handling and transportation, waste management and disposal, toxicity and hazardous substances, and workplace health and safety, as well as the investigation and clean-up of contaminated sites. Failure to comply with such laws and regulations could have significant consequences on our business and operations, including the imposition of substantial fines and sanctions for violations, injunctive relief (including requirements that we limit or cease operations at affected facilities), and negative publicity.

HSE and sustainability-related laws have become increasingly stringent and stricter interpretation or enforcement of new and existing laws could adversely affect our business, financial condition and results of our operations and product demand. For example, increasing global interest to control emissions of carbon dioxide, methane, fluorinated and other GHGs in an effort to minimize the effect on climate change have the potential to influence the price of the energy and raw materials we purchase. GHG regulations and carbon taxes could also impact oil and gas production, a key demand driver of our industrial end markets, and reduce demand for our products by driving down the use of fossil fuels.

The evolution of such laws beyond manufacturing operations to restrict specific chemical substances in our products or impose labeling and other requirements, such as the European Union's Registration, Evaluation, Authorization, and Restriction of Chemical Substances ("REACH") Regulation, and rising global interest around microplastics, extended producer responsibility, plastic packaging or hazardous chemicals such as per-and polyfluoroalkyl substances ("PFAS") could result in significant costs or limit access to certain markets.

We have incurred, and will continue to incur, both operating and capital costs to comply with environmental, safety and sustainability-related laws and regulations, including costs associated with the investigation and clean-up of some of our current and former properties and offsite disposal locations. As the present and former operator of industrial properties that use and generate hazardous materials, we could be subject to additional liability for environmental contamination in the future, regardless of whether we caused such contamination.

Additionally, most states have passed laws that regulate or limit the use of aftermarket products in certain types of repair work. These laws include requirements relating to consumer disclosure, owner's consent regarding the use of aftermarket products in the repair process, and the requirement to have aftermarket products certified by an independent testing organization. Additional legislation of this kind may be introduced in the future. If additional laws prohibiting or restricting the use of aftermarket products are passed, it could have an adverse impact on our aftermarket products business.

Certain organizations test the quality and safety of vehicle replacement products. If these organizations decide not to test a particular vehicle product, or in the event that such organizations decide that a particular vehicle product does not meet applicable quality or safety standards, we may decide to discontinue sales of such product or insurance companies may decide to discontinue authorization of repairs using such product. Such events could adversely affect our business.

Our business is subject to evolving corporate governance and public disclosure regulations and expectations, including with respect to ESG matters, that could expose us to numerous risks.

We are subject to the evolving rules and regulations with respect to ESG matters of a number of governmental and self-regulatory bodies and organizations, such as the SEC, the NYSE, the European Union, the U.K. government, and International Sustainability Standards Board, that could make compliance more difficult and uncertain. In addition, regulators, customers, investors, employees and other stakeholders are increasingly focused on ESG matters and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention to comply with or meet those regulations and expectations. Developing and acting on ESG initiatives and collecting, measuring and reporting ESG related information and metrics can be costly, difficult and time consuming. Further, ESG related information is subject to evolving reporting standards, including the SEC's proposed climate-related reporting requirements and the European Union's Corporate Sustainability Reporting Directive. Our ESG initiatives and goals could be difficult and expensive to implement, and we could be criticized for the accuracy, adequacy, consistency or completeness of our ESG disclosures. Further, statements about our ESG related initiatives and goals, and progress against those goals, may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve and assumptions that are subject to change in the future. In addition, we could be criticized for the scope or nature of such initiatives or goals, or for any revisions to these goals. If our ESG-related data, processes and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our ESG goals on a timely basis, or at all, our reputation and financial results could be adversely affected and we could be exposed to litigation.

We are subject to anti-corruption laws in various jurisdictions, as well as other laws governing our international operations. If we fail to comply with these laws we could be subject to civil or criminal penalties, other remedial measures, and legal expenses.

Our operations are subject to one or more anti-corruption laws in various jurisdictions, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), the U.K. Bribery Act of 2010, and other anti-corruption laws that generally prohibit employees and intermediaries from making improper payments for the purpose of obtaining or retaining business or gaining some other business advantage. We operate in a number of jurisdictions that pose a high risk of potential anti-corruption violations, and we participate in joint ventures and relationships with third parties whose actions could potentially subject us to liability under anti-corruption laws.

We are subject to other laws and regulations governing our operations, including regulations administered by the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Department of Treasury's Office of Foreign Assets Control, and various non-U.S. government entities, including applicable export control regulations, economic sanctions on countries and persons, customs requirements, currency exchange regulations, and transfer pricing regulations (collectively, "Trade Control Laws"). We are also subject to U.K. corporate criminal laws governing the failure to prevent the facilitation of tax evasion pursuant to the Criminal Finances Act 2017 ("Criminal Finances Act").

We have instituted policies, procedures and ongoing training of employees with regard to business ethics, designed to ensure that we and our employees comply with anti-corruption laws, Trade Control Laws and the Criminal Finances Act. However, there is no assurance that our efforts have been and will be effective in ensuring that we will comply with all applicable anti-corruption laws or other legal requirements. If we are subject to an investigation of a potential violation or are found not in compliance with anti-corruption laws, Trade Control Laws or the Criminal Finances Act, we may incur legal expenses and experience reputational harm, and could be subject to criminal and civil penalties and sanctions that could have a material adverse impact on our business, financial condition, and results of operations.

We may be subject to recalls or product liability claims, or may incur costs related to product warranties.

Meeting or exceeding many government-mandated safety standards is costly and requires manufacturers to remedy defects related to product safety through recall campaigns if the products do not comply with safety, health or environmental standards. If we, our customers or government regulators determine that a product is defective or does not comply with such standards prior to the start of production, the launch of a product could be delayed until such defect is remedied. The costs associated with any protracted delay of a product launch or a recall campaign to remedy defects in products that have been sold could be substantial.

We face an inherent risk of product liability claims if alleged product failure results in a claim for injury or loss. Supplier consolidation and the increase in low-cost country sourcing may increase the likelihood of receiving defective materials, thereby increasing the risk of alleged product failure and resulting liability claims. Litigation is inherently unpredictable and these claims, regardless of their outcome, may be costly, divert management attention and adversely affect our reputation. Although we have liability insurance, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost or will be adequate. In addition, even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and us.

From time to time, we receive product warranty claims from our customers, pursuant to which we may be required to bear costs of repair or replacement of certain of our products. Vehicle manufacturers are increasingly requiring their outside suppliers to participate in the warranty of their products and to be responsible for the operation of these component products in new vehicles sold to consumers. Warranty claims may range from individual customer claims to full recalls of all products in the field. In some cases, these claims could have a material adverse effect on our business.

Failure to develop, obtain, adequately protect or enforce our intellectual property rights against could adversely affect our business, and third parties could allege that our products infringe on their intellectual property rights, adversely affecting our business.

Our success depends on our ability to develop technologies and inventions used in our products and to brand such products to obtain intellectual property rights and to protect and enforce such intellectual property rights worldwide. In this regard, we rely on U.S. and foreign patent, trademark, copyright, and trade secret laws, as well as license agreements, nondisclosure agreements, and confidentiality and other contractual provisions.

Although we rely on U.S. and foreign intellectual property rights, procuring, enforcing, and defending patents on our products in all jurisdictions throughout the world would be prohibitively expensive, and the laws of certain foreign countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the U.S.

Even if we obtain patents or other intellectual property rights in our new technologies and inventions, the scope of such rights may not be sufficiently broad to afford us any significant commercial advantage over our competitors. In addition, the technologies and inventions developed by our engineers in the future may not prove to be as valuable as those of competitors, or competitors may develop similar or identical technologies and inventions independently of us and before we do.

Competitors and other third parties may challenge the ownership, validity, and/or enforceability of our patents or other intellectual property rights. Competitors may also use our technologies in jurisdictions where we do not pursue and obtain patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but where the ability to enforce our patent rights is not as strong as in the U.S. These products may compete with our products, and our intellectual property rights may not be effective or sufficient to prevent such competition.

Further, our efforts to enforce our intellectual property rights against infringers may not prove successful and will generally be time consuming and expensive. Successful assertion of our intellectual property rights depends on the judicial strength and willingness of the issuing jurisdictions to enact and enforce sufficient intellectual property laws. To the extent we assert our intellectual property rights against third parties, adequate remedies may not be available in the event of an infringement or unauthorized use or disclosure of our trade secrets. If we are unsuccessful in challenging such products on the basis of patent, trademark or other intellectual property misappropriation, continued sales of such imitating products may adversely affect our market share and impact customer perceptions and demand for our products.

Although we routinely conduct anti-counterfeiting activities in multiple jurisdictions, we have encountered counterfeit reproductions of our products that infringe on our intellectual property rights. We expect pirates to continue counterfeiting certain of our products using our trademarks, which has led to, and will likely continue to cause, loss of sales. It is difficult to police such counterfeiting, particularly on a worldwide basis, and the actions we take to stop such counterfeiting and to establish trademarks and other intellectual property rights may not be adequate to prevent such counterfeiting activities by others.

Third parties may assert infringement or other misappropriation claims against us based on their patents, trademarks or other intellectual property rights. In addition, first-fit manufacturers are seeking and obtaining more utility and design patents than they have in the past to threaten claims of intellectual property infringement against manufacturers and distributors of aftermarket products in efforts to restrict or eliminate the sale of aftermarket products.

Any claim relating to intellectual property infringement that is successfully asserted against us may require us to pay substantial damages, including treble damages (if we are found to be willfully infringing another party's patents) for past use of the asserted intellectual property, and royalties and other consideration going forward if we are forced to take a license. In addition, if any such claim were successfully asserted against us, we could be restricted or prohibited from manufacturing, selling or otherwise commercializing certain of our products, product candidates or other technology. Even if infringement claims against us are without merit, we will likely incur significant expenses investigating and defending such claims and, even if we prevail, may divert management attention from other business concerns.

In addition, certification by independent organizations of certain of our aftermarket products may be revoked or adversely affected by first-fit manufacturer claims. Lack of certification may negatively impact us because many major insurance companies recommend or require the use of aftermarket products only if they have been certified by an independent certifying organization.

We are subject to risks from litigation, legal and regulatory proceedings and obligations, and our insurance may not provide coverage or may not fully cover future losses we may incur related to these proceedings and obligations or otherwise.

We face an inherent business risk of exposure to various types of claims, lawsuits and proceedings. We may be involved in tax, intellectual property, product liability, product warranty and environmental claims and lawsuits, and other legal, antitrust and regulatory proceedings arising in the ordinary course of our business. Although it is not possible to predict with certainty the outcome of every claim, lawsuit or proceeding and the range of probable loss, we believe these claims, lawsuits and proceedings will not individually or in the aggregate have a material impact on our results. However, we could, in the future, be subject to various claims, lawsuits and proceedings, including, amongst others, tax, intellectual property, product liability, product warranty, environmental claims and antitrust claims, and we may incur judgments or enter into settlements of lawsuits and proceedings that are not covered or not sufficiently covered by insurance. Further, the insurance we carry may not be adequate to protect against unforeseen and damaging events, such as work stoppages and damage to facilities, equipment or reputation. We supply products to industries that are subject to inherent risks, including equipment defects, malfunctions and failures, and natural disasters (including as a result of climate change), which could expose us to liability. These exposures could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Human Capital Management

If we lose our senior management or key personnel, our business may be materially and adversely affected.

The success of our business is largely dependent on our senior management team, as well as on our ability to attract and retain other qualified key personnel. In addition, there is significant demand in our industry for skilled workers. It cannot be assured that we will be able to retain all our current senior management personnel and attract and retain other necessary personnel, including skilled workers, necessary for the development of our business. Further, in the event we do lose key personnel, the success of our business may depend on whether we have appropriate succession plans in place and can implement such plans to identify and integrate new personnel. The loss of the services of senior management and other key personnel or the failure to attract additional personnel and implement succession plans as required could have a material adverse effect on our business, financial condition and results of operations.

We may be materially adversely impacted by work stoppages and other labor matters, including labor shortages and turnover.

Labor is a primary component of operating our business. As of December 31, 2022, we had approximately 15,000 full time employees worldwide. Certain of our employees are represented by various unions under collective bargaining agreements, or by various regional works councils. While we have no reason to believe that we will be impacted by work stoppages and other labor matters, we cannot ensure that future issues with our labor unions or works councils, or with the labor unions of our customers and vendors will be resolved favorably or that we will not encounter future strikes, work stoppages, or other types of labor conflicts. Increased unionization, new labor legislation or changes in regulations could disrupt our operations, reduce our profitability, or interfere with the ability of our management to focus on executing our business strategies. Additionally, we have experienced, and may continue to experience, labor shortages, turnover and increased labor costs due to general macroeconomic factors. Any of these factors may have a materially adverse effect on us or may limit our flexibility in managing our workforce.

Certain of our defined benefit pension plans are underfunded, and additional cash contributions may be required.

Certain of our employees in the U.S., the U.K., Canada, Mexico, Germany and Japan are participants in defined benefit pension plans which we sponsor and/or to which we have contribution obligations. As of December 31, 2022, the net pension obligation of our underfunded defined benefit pension plans globally was $53.3 million on a Topic 715 "Compensation-Retirement Benefits" basis. The amount of our contributions to our underfunded plans will depend upon asset returns, funding assumptions, regulatory requirements and a number of other factors and, as a result, the amount we may be required to contribute to such plans in the future may vary. Such cash contributions to the plans will reduce the cash available for our business such as the payment of interest expense on our notes or our other indebtedness.

Risks Related to Tax Matters

Changes in our effective tax rate or additional tax liabilities could adversely impact our net income.

We are subject to income taxes as well as non-income based taxes in the U.K., the U.S. and various other jurisdictions in which we operate. The laws and regulations in these jurisdictions are inherently complex and the Company and its subsidiaries will be obliged to make judgments and interpretations about the application of these laws and regulations to the Company and its subsidiaries and their operations and businesses, including those related to any restructuring of intercompany operations, holdings or financings; the valuation of intercompany services; cross-border payments between affiliated companies; and the related effects on income tax, value added tax ("VAT") and transfer tax. Further, our tax liabilities could be adversely affected by numerous other factors, including income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred income tax assets and liabilities, and changes in tax laws and regulations. We are regularly under audit by taxing authorities in certain of the jurisdictions in which we operate. Although we believe our tax estimates are reasonable, including our estimates of reserves for unrecognized tax benefits related to the implementation of our European corporate center in 2019, any changes in our judgments and interpretation of tax laws or any material differences as a result of the audits could result in unfavorable tax adjustments that have an adverse effect on our overall tax liability. Our U.K. businesses may also be affected by the planned increase in the U.K. corporation tax rate from 19% to 25% with effect from April 2023.

Changes in tax laws could result in additional tax liabilities.

Changes in tax laws can and do occur. Changes to tax laws may require the Company to make significant judgment in determining the appropriate provision and related accruals for these taxes; and, as a result, such changes could result in substantially higher taxes and a significant adverse effect on our results of operations, financial conditions and liquidity. In addition, the Organization for Economic Co-operation and Development ("OECD"), which represents a coalition of member countries, has recommended fundamental tax reforms affecting the taxation of multinational corporations, including the Base Erosion and Profit Shifting project, which in part aims to address international corporate tax avoidance. Countries have already enacted significant measures in this regard. The OECD has undertaken a new project to address the tax challenges of the digitization of the economy. Further work is currently being undertaken by the OECD on its proposal to reform international allocation of taxing rights by allocating a greater share of taxing rights to countries where consumers are located, regardless of the physical presence of a business ("Pillar One"), and to implement a global minimum tax ("Pillar Two"). In December 2021, the OECD published its Pillar Two model rules and, in December 2022, the E.U. Commission adopted a Directive to implement Pillar Two in the E.U., containing detailed rules for top up tax in respect of certain low taxed entities. Moreover, in July 2022, the U.K. released draft legislation to implement the OECD agreed Pillar Two model rules in the U.K., which is expected to apply for accounting periods beginning on or after December 31, 2023. All sets of proposals are subject to exemptions and exclusions, and are generally intended to apply only to entities that are members of a consolidated group with an annual revenue of at least Euro 750 million. However, the detail of the proposals is subject to change and the impact on the Company will need to be determined by reference to the final rules. Further proposals on Pillar One are expected in the course of 2023.

Additionally, the U.K.'s withdrawal from the E.U. has resulted in changes (which are ongoing) to the interpretation and application of tax laws and which overall could lead to significant changes in the U.K. tax burden of the Company. Specifically, the group can no longer benefit from certain EU Directives when repatriating cash or paying interest to U.K. companies. This may lead to increased tax costs when paying dividends and interest intra-group.

Other developments to the tax regime in the U.K., the U.S. or in other countries in which we operate could materially affect our tax burden and/or have a negative impact on our ability to compete in the global marketplace.

Relevant tax authorities may no longer treat us as being exclusively a resident of the U.K. for tax purposes.

We are a company incorporated in the U.K. Current U.K. tax law provides that we will be regarded as being U.K. resident for tax purposes from incorporation and shall remain so unless (i) we are concurrently resident in another jurisdiction (applying the tax residence rules of that jurisdiction) that has a double tax treaty with the U.K., and (ii) there is a tiebreaker provision in that tax treaty which allocates exclusive residence to that other jurisdiction.

Based upon our management and organizational structure, we believe that we should be regarded solely as resident in the U.K. from our incorporation for tax purposes. However, because this analysis is highly factual and may depend on future changes in our management and organizational structure, there can be no assurance regarding the final determination of our tax residence. Not being treated exclusively as a resident of the U.K. for tax purposes could result in adverse tax consequences to us.

Risks Related to Our Indebtedness

Our substantial leverage could adversely affect our financial condition, our ability to raise additional capital to fund our operations, our ability to operate our business, our ability to react to changes in the economy, or our industry or our ability to pay our debts, and could divert our cash flow from operations to debt payments.

As of December 31, 2022, the total principal amount of our debt was $2,491.4 million. Subject to the limits contained in the credit agreements that govern our senior secured credit facilities, the indenture that governs our notes and the applicable agreements governing our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could increase. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;

- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

We are a holding company, and our consolidated assets are owned by, and our business is conducted through, our subsidiaries. Earnings from these subsidiaries are our primary source of funds for debt payments and operating expenses. If our subsidiaries are restricted from making distributions, our ability to meet our debt service obligations or otherwise fund our operations may be impaired. Moreover, there may be restrictions on payments by subsidiaries to their parent companies under applicable laws, including laws that require companies to maintain minimum amounts of capital and to make payments to shareholders only from profits. As a result, although a subsidiary of ours may have cash, we may not be able to obtain that cash to satisfy our obligation to service our outstanding debt or fund our operations.

Despite our current level of indebtedness, we may be able to incur substantially more debt and enter into other transactions which could further exacerbate the risks to our financial condition described above.

We may be able to incur significant additional indebtedness in the future. Although certain of the agreements governing our existing indebtedness contain restrictions on the incurrence of additional indebtedness and entering into certain types of other transactions, these restrictions are subject to a number of qualifications and exceptions. Additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also do not prevent us from incurring obligations, such as trade payables, that do not constitute indebtedness as defined under our debt instruments. To the extent new debt is added to our current debt levels, the substantial leverage risks described in the immediately preceding risk factor would increase.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

While interest rates had remained at historically low levels in recent years, the Federal Reserve Board significantly increased the federal funds rate in 2022 and may continue such increases in the future. As a result, interest rates on our credit facility or other variable rate debt could be higher or lower than current levels. As of December 31, 2022, after taking into account our interest rate derivatives, $668.4 million (equivalent), or 26.8%, of our outstanding debt had variable interest rates. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

In addition, we have $1,923.4 million of variable rate indebtedness that uses LIBOR or Secured Overnight Financing Rate ("SOFR") as a benchmark for establishing the rate of interest. LIBOR and its foreign currency counterparts are the subject of recent national, international and other regulatory guidance and proposals for reform and were initially not expected to be maintained after 2021, but the U.S. dollar denominated LIBOR maturity tenors will continue to be published until June 30, 2023 to allow a greater number of existing contracts to mature prior to any disruptions in LIBOR. The United States Federal Reserve has advised banks to cease entering into new contracts that use LIBOR as a reference rate. The Alternative Reference Rate Committee, a committee convened by the Federal Reserve that includes major market participants, has identified SOFR, a new index calculated by short-term repurchase agreements, backed by Treasury securities, as its preferred alternative rate for LIBOR. At this time, it is not possible to predict how markets will respond to SOFR or other alternative reference rates as the transition away from the LIBOR benchmarks is anticipated in coming years. There continue to be uncertainties regarding the transition from LIBOR, including but not limited to the need to renegotiate certain terms of our loan agreements with LIBOR as the referenced rate, which could require us to incur significant expense and may subject us to disputes or litigation over the appropriateness or comparability to LIBOR of the replacement reference rates. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of our variable rate indebtedness and could challenge our ability to renegotiate our revolving credit facility or other variable rate debt offerings.

Certain of our debt agreements impose significant operating and financial restrictions on our subsidiaries and us that could prevent us from capitalizing on business opportunities.

The credit agreements that govern our senior secured term loan facilities and the indenture that governs our notes impose significant operating and financial restrictions on our subsidiaries. These restrictions limit the ability of certain of our subsidiaries to, among other things:

- incur or guarantee additional debt or issue disqualified stock or preferred stock;
- pay dividends and make other distributions on, or redeem or repurchase, capital stock;
- make certain investments;
- incur certain liens;
- enter into transactions with affiliates;
- merge or consolidate;
- enter into agreements that restrict the ability of restricted subsidiaries to make dividends or other payments;
- designate restricted subsidiaries as unrestricted subsidiaries; and
- transfer or sell assets.

As a result of these restrictions, we are limited as to how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include similar or more restrictive covenants. We cannot ensure that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders or amend the covenants.

Our failure to comply with the restrictive covenants described above as well as other terms of our other indebtedness or the terms of any future indebtedness from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their due date. If we are forced to refinance these borrowings on less favorable terms or are unable to refinance these borrowings, our results of operations and financial condition could be adversely affected.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our results of operations and our financial condition.

If there is an event of default under any of the agreements relating to our outstanding indebtedness, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our assets or cash flows would be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments.

Risks Related to the Ownership of our Ordinary Shares

Our Sponsor and its affiliates control us and their interests may conflict with ours in the future.

Our Sponsor and its affiliates beneficially owned approximately 63% of our outstanding ordinary shares as of December 31, 2022. Moreover, under our articles of association (the "Articles") and our shareholders agreement with our Sponsor, for so long as our Sponsor and its affiliates retain significant ownership of us, we have agreed to nominate to our board individuals designated by such Sponsor. Even when our Sponsor and its affiliates cease to own ordinary shares representing a majority of the total voting power, for so long as our Sponsor continues to own a significant percentage of our ordinary shares, such Sponsor will still be able to significantly influence the composition of our board of directors and the approval of actions requiring shareholder approval through their voting power. Accordingly, for such period of time, our Sponsor will have significant influence with respect to our management, business plans and policies, including the appointment and removal of our officers. In particular, for so long as our Sponsor continues to own a significant percentage of our ordinary shares, such Sponsor will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive other shareholders of an opportunity to receive a premium for ordinary shares as part of a sale of our company and ultimately might affect the market price of our ordinary shares.

Our Sponsor and its affiliates engage in a broad spectrum of activities. In the ordinary course of their business activities, our Sponsor and its affiliates may engage in activities where their interests conflict with our interests or those of our shareholders. Our shareholders' agreement provides that neither our Sponsor nor any of its affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. Our Sponsor also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our Sponsor may have an interest in our pursuing acquisitions, divestitures and other transactions that, in their judgment, could enhance their investment, even though such transactions might involve risks to us and our shareholders.

We are a "controlled company" within the meaning of the rules of the NYSE and, as a result, may rely on exemptions from certain corporate governance requirements. Our shareholders may not have the same protections afforded to shareholders of companies that are subject to such requirements.

Our Sponsor controls a majority of the combined voting power of all classes of our shares entitled to vote generally in the election of directors. As a result, we are a "controlled company" within the meaning of the corporate governance standards of the NYSE. Under these rules, a company of which more than 50% of the voting power in the election of directors is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements. For example, controlled companies are (i) not required to have a board that is composed of a majority of "independent directors," as defined under the rules of such exchange; (ii) not required to have a compensation committee that is composed entirely of independent directors; and (iii) not required to have a nominating and corporate governance committee that is composed entirely of independent directors.

Beginning in 2020, a majority of our Board of Directors consists of independent directors, and beginning in 2021, each of our Compensation Committee and Nominating and Governance Committee consist entirely of independent directors with written charters addressing each such committee's purpose and responsibilities. While at this time, we do not rely on the controlled company exemptions, we are still eligible to do so, in which case our shareholders may not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

The market price of our ordinary shares has been and may in the future be volatile, which could cause the value of our shareholders' investment to decline.

The market price of our ordinary shares has been and may in the future be volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. During Fiscal 2022, the per share trading price of our ordinary shares fluctuated from a low of $9.70 to a high of $16.70. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our ordinary shares regardless of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly operating results or dividends, if any, to shareholders, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, adverse publicity about the industries in which we participate, general macroeconomic factors or individual scandals and in response, the market price of our ordinary shares could decrease significantly.

Stock markets and the price of our ordinary shares may experience extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Because we have no current plans to pay dividends on our ordinary shares, our shareholders may not receive any return on their investments unless they sell their ordinary shares for a price greater than that which they paid.

We have no current plans to pay dividends on our ordinary shares. The declaration, amount and payment of any future dividends on our ordinary shares will be at the sole discretion of our board of directors. Our Board of Directors may take into account general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our shareholders or by our subsidiaries to us, and such other factors as our Board of Directors may deem relevant. In addition, our ability to pay dividends is limited by our senior secured credit facilities and notes and may be limited by covenants of other indebtedness we or our subsidiaries incur in the future. As a result, our shareholders may not receive any return on an investment in our ordinary shares unless such shares are sold for a price greater than that which was paid for them.

Our shareholders may be diluted by the future issuance of additional ordinary shares in connection with our incentive plans, acquisitions or otherwise.

Our shareholders adopted a resolution authorizing our Board of Directors to allot our ordinary shares and to grant rights to subscribe for or convert any security into such shares for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion, whether in connection with acquisitions or otherwise. Additionally, we have reserved 19.0 million ordinary shares for issuance under our Omnibus Incentive Plan, including 8.7 million shares available for grant as of December 31, 2022. Any ordinary shares that we issue, including under our Omnibus Incentive Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by the holders of our ordinary shares.

Future issuances of ordinary shares by us, and the availability for resale of shares held by our Sponsor, may cause the market price of our ordinary shares to decline.

Sales of a substantial number of our ordinary shares in the public market, or the perception that these sales could occur, could substantially decrease the market price of our ordinary shares.

Pursuant to a registration rights agreement, we granted our Sponsor the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act covering resales of our ordinary shares held by them or to participate in future registration of securities by us. In Fiscal 2022, we filed an automatically effective shelf registration statement on Form S-3 that, among other things, registers (i) an indeterminate amount of securities we may issue in the future, and (ii) the resale of 178,587,591 outstanding ordinary shares held by our Sponsor. Shares held by our Sponsor also may be sold pursuant to Rule 144 under the Securities Act subject to certain volume, manner of sale, and other limitations. The market price of our ordinary shares could drop significantly if we or our Sponsor sell these shares or are perceived by the market as intending to sell them. In addition, our Sponsor has pledged, hypothecated or granted security interests in substantially all of the ordinary shares held by it pursuant to a margin loan agreement and any foreclosure upon those shares could result in sales of a substantial number of ordinary shares in the public market, which could substantially decrease the market price of our ordinary shares.

We may issue a new class or classes of shares whose terms could adversely affect the voting power or value of our ordinary shares.

Our articles of association, as amended, authorize us to issue, subject to the limit therein on the authority of our Board of Directors to allot new shares of the Company, without the approval of the holders of our ordinary shares, a new class or classes of shares, including preference shares, with nominal value in any currency. Such shares may be issued with, or have attached to them, such powers, designations, preferences, voting rights, rights and terms of redemption, and relative participating, optional or other special rights and qualifications, limitations and restrictions as the Board of Directors may determine, including rights to (a) receive dividends (which may include rights to receive preferential or cumulative dividends), (b) distributions made on a winding up of the Company, and (c) be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of shares, at such price or prices (subject to the Companies Act 2006 (“Companies Act”)) or at such rates of exchange and with such adjustments as may be determined by our Board of Directors.

The terms of one or more classes of shares could adversely impact the voting power of our ordinary shares. For example, we might grant holders of a new class of shares the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions.

Similarly, the repurchase or redemption rights or liquidation preferences we might assign to a new class of shares could affect the residual value of our ordinary shares.

U.S. investors may have difficulty enforcing civil liabilities against our Company, our directors or members of our senior management.

There is doubt as to whether English courts would enforce certain civil liabilities under U.S. securities laws in original actions or in judgments of U.S. courts based upon these civil liability provisions. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in the U.K. An award for monetary damages under the U.S. securities laws would be considered punitive if it does not seek to compensate the claimant for loss or damage suffered and is intended to punish the defendant. The enforceability of any judgment in the U.K. will depend on the particular facts of the case as well as the laws and treaties in effect at the time. The U.S. and the U.K. do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters.

The rights of our shareholders may differ from the rights typically offered to shareholders of a U.S. corporation.

We are incorporated under English law. The rights of holders of our ordinary shares are governed by English law, including the provisions of the Companies Act, and by our Articles. These rights differ in certain respects from the rights of shareholders in typical U.S. corporations.

The U.K. City Code on Takeovers and Mergers (the “Takeover Code”) applies, among other things, to an offer for a public company whose registered office is in the U.K. and whose securities are not admitted to trading on a regulated market in the U.K. if the company is considered by the Panel on Takeovers and Mergers (the “Takeover Panel”) to have its place of central management and control in the U.K. This is known as the “residency test.” Under the Takeover Code, the Takeover Panel will determine whether we have our place of central management and control in the U.K. by looking at various factors, including the structure of our Board of Directors, the functions of the directors and where they are resident.

If at the time of a takeover offer, the Takeover Panel determines that we have our place of central management and control in the U.K., we would be subject to a number of rules and restrictions, including but not limited to the following: (i) our ability to enter into deal protection arrangements with a bidder would be extremely limited; (ii) we might not, without the approval of our shareholders, be able to perform certain actions that could have the effect of frustrating an offer, such as issuing shares or carrying out acquisitions or disposals; and (iii) we would be obliged to provide equality of information to all bona fide competing bidders.

Our Sponsor has an interest in over 50% of our voting share capital, and therefore, if the Takeover Panel were to determine that we were subject to the Takeover Code, our Sponsor would be able to increase its aggregate holding in us without triggering the requirement under Rule 9 of the Takeover Code to make a cash offer for the outstanding shares in the issuer.

The Takeover Panel previously confirmed to our representatives that, on the basis of our Board of Directors, it does not consider the Takeover Code to apply to the Company, although that position is subject to change if our place of central management and control is subsequently found to move to the U.K.

Our Articles provide that the courts of England and Wales have exclusive jurisdiction to determine shareholder and derivative disputes, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, former directors, officers or employees.

Our Articles provide that the courts of England and Wales have exclusive jurisdiction to determine any dispute brought by a shareholder in that shareholder's capacity as such, or related to or connected with any derivative claim in respect of a cause of action vested in the Company or seeking relief on behalf of the Company, against the Company and/or the Board and/or any of the directors, former directors, officers or other employees individually, arising out of or in connection with these Articles or (to the maximum extent permitted by applicable law) otherwise. This choice of forum provision may limit a shareholder's ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our directors, former directors, officers or other employees, which may discourage lawsuits against us and our directors, former directors, officers and employees. The rights of stockholders under Delaware law and shareholders under English law in relation to the bringing of shareholder suits differ in several significant respects. Any person or entity purchasing or otherwise acquiring or holding any interest in our ordinary shares shall be deemed to have notice of and to have consented to the provisions of our governing documents described above, as they may be amended from time to time.

Transfers of our shares outside DTC may be subject to stamp duty or stamp duty reserve tax in the U.K., which would increase the cost of dealing in our shares.

We strongly encourage investors to hold ordinary shares in book-entry form through the facilities of The Depository Trust Company ("DTC") as transfers outside of DTC may be subject to U.K. stamp duty or stamp duty reserve tax ("SDRT") which would increase the cost of dealing in our shares. A transfer of title in the ordinary shares held within DTC to a purchaser out of DTC and any subsequent transfers that occur outside the DTC system, will generally attract a charge to U.K. stamp duty or SDRT at a rate of 0.5% of any consideration payable for such transfer, which is payable by the transferee of the ordinary shares. Any such duty must be paid and the relevant transfer document, if any, stamped by HM Revenue & Customs ("HMRC") before the transfer can be registered in our company books. However, if those ordinary shares are redeposited into DTC or any other depositary receipt system or clearance service, the redeposit will generally attract stamp duty or SDRT, at the rate of 1.5% of the value of the shares, which will normally be paid by the transferor.

If our ordinary shares are not eligible for continued deposit and clearing within the facilities of DTC, then transactions in our securities may be disrupted and/or our ability to issue shares under our equity compensation plans may be restricted.

The facilities of DTC are a widely used mechanism that allow for rapid electronic transfers of securities between the participants in the DTC system, which include many large banks and brokerage firms. Our ordinary shares are currently eligible for deposit and clearing within the DTC system. DTC generally has discretion to cease to act as a depository and clearing agency for the ordinary shares including to the extent that any changes in U.K. law affect the stamp duty or SDRT position in relation to the ordinary shares. If DTC were to determine that our ordinary shares are not eligible for continued deposit and clearance within its facilities, our ordinary shares may not be eligible for continued listing on the NYSE and trading in our ordinary shares would be disrupted. While we would pursue alternative arrangements to preserve our listing and maintain trading, any such disruption could have a material adverse effect on the market price of our ordinary shares and our access to the capital markets.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate from over 100 locations in 30 countries across the Americas, Europe, Asia, Australia and Africa. Our corporate operations center is located in Denver, Colorado, and we also maintain regional headquarters in Denver, Luxembourg, Shanghai, and Singapore.

Included in our property, plant and equipment are land and buildings with a total carrying amount of $214.0 million as of December 31, 2022, compared to $229.7 million as of January 1, 2022, representing manufacturing facilities, service centers, distribution centers and offices located throughout the world, but predominantly in North America. As of December 31, 2022, Gates owned 30 of these facilities, including 24 manufacturing or service centers.

We also lease a number of locations around the world, primarily distribution centers and offices, none of which is individually material to our operations. Refer to Note 12 to the audited consolidated financial statements included elsewhere in this report for additional information regarding our lease commitments.

Management believes that the Company's properties are suitable and adequate for its current and anticipated business operations.

Item 3. Legal Proceedings

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 and other matters which arise in the ordinary course of business and against which management believes meritorious defenses are available.

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 have a material adverse effect upon our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

Our ordinary shares are traded on the NYSE under the symbol "GTES". As of February 6, 2023, there were three holders of record of our ordinary shares. This does not include a substantially greater number of holders whose ordinary shares are held by these record holders, including through banks, brokers, and other institutions.

Dividends

We have no current plans to pay dividends on our ordinary shares. Any decision to declare and pay dividends in the future will be made at the sole discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. We are a holding company and have no direct operations; accordingly, we will only be able to pay dividends from funds we receive from our subsidiaries. In addition, the ability of our subsidiaries to pay dividends will be limited by covenants in our existing indebtedness and may be limited by the agreements governing any indebtedness we or our subsidiaries may incur in the future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2021, we established a repurchase program allowing for up to $200 million in authorized share repurchases of our ordinary shares, exclusive of commissions, through December 31, 2022. There were no repurchases of shares of the Company's equity securities during the fourth quarter of 2022 and the remaining dollar value of shares available for repurchase under this program expired on December 31, 2022.

Item 6. [Reserved]

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this annual report. This discussion and analysis addresses Fiscal 2022 and Fiscal 2021. For discussion and analysis of our financial condition and results of operations for Fiscal 2021 and Fiscal 2020, see Management's Discussion and Analysis of Financial Condition and Results of Operations, in Part II, Item 7 of our Annual Report on Form 10-K for Fiscal 2021, which is incorporated herein by reference. 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 "Forward-Looking Statements" and "Risk Factors" above.

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 ("first-fit") manufacturers as specified components, with the majority of our revenue coming from replacement channels. Our products are used in applications across numerous end markets, including industrial off-highway end markets such as construction and agriculture, industrial on-highway end markets such as transportation, diversified industrial, energy and resources, automotive, 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 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 blue-chip 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 the regions and end markets 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 Fiscal 2022, sales into replacement channels accounted for approximately 63% 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 Fiscal 2022, sales into first-fit channels accounted for approximately 37% 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 Fiscal 2022, we continued to experience challenges from raw material, energy, and freight inflation, which have moderated in certain areas, but are expected to continue to a lesser degree in the near term. For Fiscal 2022, we were able to end the year price/cost positive on a dollar basis relative to these inflation impacts and nearly neutral on a gross margin basis. In addition, we experienced production disruptions and input shortages on labor, certain raw materials and freight in 2021 and through Fiscal 2022. These supply chain challenges have moderated in late 2022, resulting in modest improvements in our productivity and ended the year in a more balanced position with supply meeting the underlying demand.

Russia-Ukraine conflict

The conflict between Russia and Ukraine, and the sanctions and counter-sanctions imposed in response to it, have created increased economic uncertainty and operational complexity both in the region 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, resulting in restructuring and other charges totaling $3.5 million in Fiscal 2022. Should the conflict continue or escalate, it could have a significant negative effect on our business and results in the future including continued inflationary pressures on raw materials, energy and transportation, supply chain and logistics disruptions, volatility in foreign exchange rates and interest rates, and heightened cybersecurity threats. This conflict directly resulted in a decrease of approximately 2% to our 2022 global revenues.

Impact of COVID-19 Pandemic

In the third year of the COVID-19 pandemic, we continue to contend with the ongoing implications of the pandemic and prioritizing the health and safety of our employees and the communities in which we operate around the world, taking additional protective measures in our plants to safely maintain operational continuity in support of our global customer base. We may take further actions if required or recommended by government authorities or if we determine them to be in the best interests of our employees, customers, and suppliers.

Our operations are supported largely by local supply chains. Where necessary, we have taken steps to qualify additional suppliers to ensure we are able to maintain continuity of supply. Although we have not experienced any significant operational disruptions to date, we have incurred meaningful operational inefficiencies. In addition, certain Gates suppliers have, or may in the future, temporarily close operations, delay order fulfillment or limit production due to the pandemic, including as a result of insufficient raw materials necessary to support their production. Continued disruptions, shipping delays or insolvency of key vendors in our supply chain could make it difficult or more costly for us to obtain the raw materials or other inputs we need for our operations, or to deliver products to our customers.

Gates employs an in-region, for-region manufacturing strategy, under which local operations primarily support local demand. In addition to the handful of plants that were temporarily closed by government mandates at various times, we have proactively managed our output to expected demand levels and occasionally suspended production at other plants for short periods of time, predominantly in the first half of 2020. As shelter-in-place requirements eased in various jurisdictions, we saw sequential quarterly improvements in the second half of 2020 which continued during the first half of 2021, and then began to slow during the second half of 2021 as the global economy continued to normalize. During March 2022, an increase in COVID-19 related cases in certain parts of China resulted in the re-imposition of widespread shutdowns and restrictions in China through most of April and May 2022, and resulted in a modest loss of production, sales and profitability. As the COVID-19 lockdowns began to ease in June 2022, our business in China began to slowly recover, before a rapid rise in infections in China late in 2022 adversely affected customer demand, labor availability, and our profitability. We continue to expect it will take time through the first half of 2023 for our customers and the local supply base in China to operate at more normalized levels. We may experience future production disruptions where plants are temporarily closed or productivity is reduced by government mandates or as a result of supply chain or labor disruptions, which could place further constraints on our ability to produce or deliver our products and meet customer demand or increase our costs. We may also continue to experience periods of inconsistency in customer demand as customers address their own supply chain constraints. During this crisis, we have maintained our ability to respond to changes in demand and we continue to fund key initiatives, which we believe will serve us well as our end markets continue to evolve.

We have strength and flexibility in our liquidity position, which includes committed borrowing headroom of $438.9 million under our lines of credit, in addition to cash balances of $578.4 million as of December 31, 2022. In addition, our business has a demonstrated ability to generate free cash flow even in challenging environments.

While we have generally seen a rebound in demand from the pandemic-induced declines of 2020, the evolving impact of the pandemic, including the emergence of variants, and continuing measures being taken around the world to combat its spread, may have ongoing implications for our business which may vary from time to time. Some of these impacts may be material but cannot be reasonably estimated at this time.

Results for the year ended December 31, 2022 compared to the results for the year ended January 1, 2022

Summary Gates Performance

	For the year ended	
(dollars in millions)	December 31, 2022	January 1, 2022
Net sales	$ 3,554.2	$ 3,474.4
Cost of sales	2,303.6	2,135.2
Gross profit	**1,250.6**	**1,339.2**
Selling, general and administrative expenses	853.7	852.7
Transaction-related expenses	2.1	3.7
Asset impairments	1.1	0.6
Restructuring expenses	9.5	7.4
Other operating expense (income)	0.2	(9.3)
Operating income from continuing operations	**384.0**	**484.1**
Interest expense	139.4	133.5
Other (income) expense	(13.2)	0.9
Income from continuing operations before taxes	**257.8**	**349.7**
Income tax expense	14.9	18.4
Net income from continuing operations	**$ 242.9**	**$ 331.3**
Adjusted EBITDA[(1)]	$ 680.6	$ 735.8
Adjusted EBITDA margin	19.1 %	21.2 %

(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 Fiscal 2022 were $3,554.2 million, compared to $3,474.4 million during the prior year, an increase of 2.3%, or $79.8 million. Our net sales for Fiscal 2022 were adversely impacted by movements in average currency exchange rates of $185.1 million compared to the prior year, principally due to the strengthening of the U.S. dollar against a number of currencies, in particular the Euro, Japanese Yen and Turkish Lira. Excluding this impact, core sales increased by $264.9 million, or 7.6%, during Fiscal 2022 compared to the prior year, driven primarily by a $363.1 million benefit from favorable pricing, partially offset by the impact of lower volumes.

Core sales in our Power Transmission and Fluid Power businesses increased by 4.8% and 12.6%, respectively, during Fiscal 2022 compared to the prior year. These improvements were primarily driven by increases in sales to customers in our industrial channels, with industrial replacement sales up by 9.6% and industrial first-fit sales up by 8.4%. The majority of this growth was focused in North America and EMEA, where industrial sales grew by 11.5% and 17.3%, respectively, during Fiscal 2022 compared to the prior year. The off-highway, diversified industrial, and personal mobility end markets drove most of the industrial channel growth during Fiscal 2022, increasing by 10.6%, 7.7% and 22.6%, respectively, compared to the prior year, particularly in North America and EMEA. Sales growth in the automotive channel extended to 6.0% during Fiscal 2022 compared to the prior year, primarily due to the automotive market rebounding from supply-chain issues and the global semiconductor chip shortage, particularly in North America. The growth in core sales was partially offset by decline in both industrial and automotive sales in Greater China, which declined by 17.4% and 7.3%, respectively, compared to the prior year. The Greater China region experienced declines across all end markets primarily due to the continued challenges in Chinese economy exacerbated by the pandemic-inflicted lockdowns during the second quarter with continued impact throughout the year. Our business was also negatively impacted by the abrupt change in COVID-related policies in China in December 2022, which led to a rapid rise in COVID infections in China and resulted in a decline in customer demand and limited labor availability, with continuing impact into early 2023.

Cost of sales

Cost of sales for Fiscal 2022 was $2,303.6 million, compared to $2,135.2 million for the prior year, an increase of 7.9%, or $168.4 million. This increase is primarily attributable to higher inflation-related costs, including higher materials, utilities and inbound freight costs, of $242.4 million, in addition to a $10.1 million adjustment to remeasure certain inventories on a last in, first out ("LIFO") basis. Cost of sales also increased by $117.2 million as a result of lower absorption of fixed costs, which was partially offset by lower volumes. These increases were further offset by $136.8 million as a result of favorable movements in average currency exchange rates.

Gross profit

As a result of the factors described above, gross profit for Fiscal 2022 was $1,250.6 million, compared to $1,339.2 million for the prior year period, a decrease of 6.6% or $88.6 million. Our gross profit margin dropped by 330 basis points to 35.2% for Fiscal 2022.

Selling, general and administrative expenses

SG&A expenses for Fiscal 2022 were $853.7 million compared to $852.7 million for the prior year. This increase of $1.0 million was driven primarily by higher share-based compensation costs of $19.7 million, largely due to the March 2022 vesting of certain pre-IPO options as discussed further in Note 19 to the condensed consolidated financial statements included elsewhere in this report. Other increases are due to higher travel, marketing, and IT and other administrative expenditures. These increases were largely offset by favorable movements in average currency exchange rates compared to the prior year period.

Transaction-related expenses

Transaction-related expenses of $2.1 million were incurred during Fiscal 2022, related primarily to the secondary offering completed in March 2022 and certain other corporate transactions. Transaction-related expenses of $3.7 million were incurred during the prior year, related primarily to the amendment to our Dollar Term Loan credit facility completed in February 2021, as well as certain other corporate transactions during the year.

Restructuring expenses

As described further under the "Business Trends" section above, we continue to make progress on our previously announced restructuring program, which is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs, and to streamline our SG&A back-office functions.

Restructuring and other strategic initiatives during Fiscal 2022 related primarily to our ongoing European reorganization, including $2.5 million of labor, severance and other costs related to relocating certain production activities within Europe during Fiscal 2022, in addition to severance costs of $2.4 million during the year related to relocation and integration of certain support functions into our regional shared service center. We also incurred $3.5 million of costs during Fiscal 2022 in relation to the suspension of our operations in Russia, which included severance costs of $0.7 million, an impairment of inventories of $1.1 million (recognized in cost of sales), and an impairment of fixed and other assets of $1.1 million (recognized in asset impairments). Other restructuring costs incurred during the period related to facility relocations and other legal and consulting costs.

Restructuring and other strategic initiative costs, including asset impairments, of $9.4 million were recognized during Fiscal 2021, including $3.4 million of primarily severance and other labor-related expenses related to our European reorganization involving office and distribution center closures or downsizings and the implementation of a regional shared service center, and $3.7 million of additional costs related to the closure in 2020 of a manufacturing facility in Korea, including impairment of fixed assets of $0.6 million (recognized in asset impairments). Also during Fiscal 2021, we incurred $1.4 million of inventory impairments (recognized in cost of sales), predominantly in North America as part of a strategic product line shift, and we recognized $1.0 million of expenses related to the consolidation of certain of our Middle East businesses. Partially offsetting these costs were gains of $3.1 million on the disposal of buildings in Korea and France that were no longer needed following the completion of certain restructuring initiatives.

Other operating expense (income)

Other operating expense of $0.2 million was recognized during Fiscal 2022, as compared to the other operating income of $9.3 million recognized in the prior year, which related primarily to a net gain on the sale of a purchase option on a building that we lease in Europe.

Interest expense

(dollars in millions)	For the year ended December 31, 2022	For the year ended January 1, 2022
Debt:		
—Dollar Term Loans	$ 71.2	$ 65.0
—Euro Term Loan	19.0	24.1
—Dollar Senior Notes	35.4	35.4
—Other loans	1.0	—
	126.6	**124.5**
Amortization of deferred issuance costs	10.0	5.9
Other interest expense	2.8	3.1
	$ 139.4	**$ 133.5**

Details of our long-term debt are presented in Note 15 to the consolidated financial statements included elsewhere in this report.

Interest on debt for Fiscal 2022 increased by $2.1 million when compared to the prior year primarily due to higher interest rates on the Existing Dollar Term Loans and the issuance of the New Dollar Term Loans in November 2022, partially offset by the impact of derivatives. In addition, interest expense on other loans increased by $1.0 million during Fiscal 2022 due to drawings on the Asset-backed revolver in March 2022, which was paid off during the year. These increases were largely offset by the decrease from interest expense on the Euro Term Loan, due to a combination of the Euro debt payoff on November 16, 2022 and favorable movements in average currency exchange rates.

Amortization of deferred issuance costs increased during Fiscal 2022 primarily due to the accelerated amortization of $2.2 million incurred in Fiscal 2022 due to the repayment of Euro Term Loan on November 16, 2022.

Other (income) expense

(dollars in millions)	For the year ended December 31, 2022	For the year ended January 1, 2022
Interest income on bank deposits	$ (3.6)	$ (3.2)
Foreign currency (gain) loss on net debt and hedging instruments	(10.2)	7.6
Net adjustments related to post-retirement benefits	(6.5)	(4.6)
Other	7.1	1.1
	$ (13.2)	**$ 0.9**

Other income for Fiscal 2022 was $13.2 million, compared to an expense of $0.9 million in the prior year. This change was driven primarily by the impact of net movements in foreign currency exchange rates on net debt and hedging instruments, partially offset by higher fees incurred in relation to our trade accounts receivable factoring program due to a higher discount rate.

Income tax expense (benefit)

For Fiscal 2022, we had an income tax expense of $14.9 million on pre-tax income of $257.8 million, which resulted in an effective tax rate of 5.8% compared to an income tax expense of $18.4 million on pre-tax income of $349.7 million, which resulted in an effective tax rate of 5.3% for Fiscal 2021.

The effective tax rate for Fiscal 2022 was driven primarily by tax benefits of $26.4 million for unrecognized tax benefits due to lapsed statute of limitations, and $15.3 million for the partial release of valuation allowance on deferred tax assets for U.S. foreign tax credits. In addition, we had net $7.6 million of tax expense primarily on earnings from international operations.

The effective tax rate for Fiscal 2021 was driven primarily by tax benefits of $26.4 million related to the partial release of valuation allowance on deferred tax assets for U.S. foreign tax credits, $16.1 million for deferred taxes on unremitted earnings of our subsidiaries, and $14.0 million on deferred tax rate changes.

Deferred Income 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 impact materially our financial statements.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in Fiscal 2022 that it was more likely than not that deferred income tax assets in the U.S. related to foreign tax credits totaling $15.3 million are realizable as a result of changes in estimates of taxable profits against which these credits can be utilized. In Fiscal 2021 we determined that it was more likely than not that deferred income tax assets in the U.S. related to foreign tax credits totaling $53.4 million are realizable as a result of changes in estimates of taxable profits against which these credits can be utilized.

Adjusted EBITDA

Adjusted EBITDA for Fiscal 2022 was $680.6 million, compared to $735.8 million in the prior year, a decrease of 7.5% or $55.2 million. The Adjusted EBITDA margin was 19.1% for Fiscal 2022, a 210 basis point decline from the prior year. The decrease in Adjusted EBITDA was driven primarily by the decrease in gross profit of $88.6 million, which was largely the result of higher inflation and lower absorption of fixed costs as described above.

For a reconciliation of net income 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% of Gates' net sales for the year ended December 31, 2022)

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	Period over period change
Net sales	$ 2,173.7	$ 2,216.3	(1.9%)
Adjusted EBITDA	$ 404.0	$ 500.6	(19.3%)
Adjusted EBITDA margin	18.6 %	22.6 %	

Net sales in Power Transmission for Fiscal 2022 decreased by 1.9%, or $42.6 million, compared to the prior year. Excluding the adverse impact of movements in average currency exchange rates of $149.2 million, core sales increased by 4.8%, or $106.6 million, compared to the prior year, driven primarily by a $208.4 million benefit from favorable pricing, partially offset by the impact of lower volumes.

Power Transmission's core sales to industrial customers grew by 6.3% during Fiscal 2022, compared to the prior year periods. Industrial growth during Fiscal 2022 was focused in the diversified industrial, personal mobility, and off-highway end markets, which together grew by 11.2%, compared to the prior year period, primarily in North America and EMEA. Sales to the on-highway end market declined by 2.7% during Fiscal 2022, compared to the prior year period, primarily from Greater China, partially offset by slight growth in all other regions. Automotive sales grew by 3.8% during Fiscal 2022, compared to the prior year periods, driven by strong growth in automotive first-fit sales in North America and East Asia during Fiscal 2022. Sales to the industrial replacement channel also increased by 7.3% during Fiscal 2022, primarily from EMEA, South America and Greater China.

Power Transmission Adjusted EBITDA for Fiscal 2022 decreased by 19.3% or $96.6 million compared to the prior year, driven primarily by a combination of higher inflation, operating inefficiencies related to raw material challenges, and lower volumes, partially offset by the benefit from favorable pricing of $208.4 million. As a result, the Adjusted EBITDA margin for Fiscal 2022 was 18.6%, a 400 basis point decline from the prior year.

Fluid Power (38.8% of Gates' net sales for the year ended December 31, 2022)

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	Period over period change
Net sales	$ 1,380.5	$ 1,258.1	9.7%
Adjusted EBITDA	$ 276.6	$ 235.2	17.6%
Adjusted EBITDA margin	20.0 %	18.7 %	

Net sales in Fluid Power for Fiscal 2022 increased by 9.7%, or $122.4 million, compared to the prior year. Excluding the adverse impact of movements in average currency exchange rates of $35.9 million, core sales increased by 12.6%, or $158.3 million, compared to the prior year, driven primarily by a $154.7 million benefit from favorable pricing.

Fluid Power's core sales growth in Fiscal 2022 was driven by increased sales to both industrial and automotive customers. Sales to industrial channels increased by 11.5%, while automotive channels grew by 16.7%, respectively, compared to the prior year period. Industrial sales to all end markets increased, but was primarily driven by sales to the off-highway and energy and resources end markets, particularly in North America and EMEA, partially offset by declines in Greater China and East Asia & India. Automotive replacement sales also grew by 16.8% during Fiscal 2022, primarily in North America.

Fluid Power Adjusted EBITDA for Fiscal 2022 increased by 17.6%, or $41.4 million compared to the prior year, driven primarily by the benefit from favorable pricing. As a result, the Adjusted EBITDA margin was 20.0%, a 130 basis point improvement from the prior year.

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 our majority equity holders, Blackstone and its affiliates, 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 2026; 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

Year ended December 31, 2022 compared to the year ended January 1, 2022

Cash provided by operating activities was $265.8 million during Fiscal 2022 compared to cash provided by operating activities of $382.4 million during the prior year period, driven primarily by lower operating performance during the current year, an increase of $34.8 million in taxes paid, an increase of $27.2 million in trade working capital movement, and higher bonus payments. These decreases in operating cash flows are partially offset by higher value-added tax recoveries than in the prior year.

Net cash used in investing activities during Fiscal 2022 was $90.7 million, compared to $86.0 million in the prior year period.

Net cash used in financing activities was $253.1 million during Fiscal 2022, compared to $148.6 million in the prior year period. This higher cash outflow was driven primarily by the $175.9 million paid to acquire shares under our share repurchase program, including shares repurchased through an intermediary from Blackstone as further described in Note 19 to the consolidated financial statements included elsewhere in this report, and higher debt issuance cost paid as a result of refinancing the Euro Term loan in November 2022. This higher cash outflow was partially offset by lower net payments on debt of $31.9 million, compared to $91.0 million in the prior year period, which included a $69.5 million repayment against our Euro Term Loan.

Indebtedness

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

(dollars in millions)	Carrying amount As of December 31, 2022	Carrying amount As of January 1, 2022	Principal amount As of December 31, 2022	Principal amount As of January 1, 2022
Debt:				
—Secured				
Term Loans (U.S. dollar)	$ 1,883.3	$ 1,342.0	$ 1,923.4	$ 1,363.7
Term Loan (Euro)	—	644.1	—	647.5
—Unsecured				
Senior Notes (U.S. dollar)	579.7	578.5	568.0	568.0
	$ 2,463.0	**$ 2,564.6**	**$ 2,491.4**	**$ 2,579.2**

We refer to the term loans denominated in U.S. dollars as the “Dollar Term Loans” and the term loan denominated in Euros as the “Euro Term Loan”. Details of our long-term debt are presented in Note 15 to the consolidated financial statements included elsewhere in this annual report.

Debt drawings and redemptions

On November 16, 2022, we issued a new tranche of $575.0 million of dollar-denominated term loans (“New Dollar Term Loans”) pursuant to an amendment to the credit agreement governing our term loan facilities, using the proceeds to extinguish the entire outstanding principal balance of €563.8 million under our Euro Term Loan facility plus €1.0 million accrued interest. The New Dollar Term Loans have substantially similar terms as the then-outstanding Dollar Term Loans (the “Existing Dollar Term Loans”), except bearing interest at the borrower’s option at either Term SOFR (as defined in the credit agreement) plus 3.50% margin per annum, subject to a 0.50% per annum Term SOFR floor, or at the base rate plus 2.50% per annum, subject to a 1.50% per annum base rate floor. The New Dollar Term Loans require quarterly amortization payments of 1% per annum based on the initial aggregate principal amount and mature in November 2029. Issuance discount and costs totaling approximately $23.2 million related to the issuance of the New Dollar Term Loan have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method. The repayment of Euro Term Loan resulted in the accelerated recognition of $2.2 million deferred financing costs (recognized in interest expense).

During March 2022, we drew $70.0 million under our asset-backed revolving credit facility to partially fund the purchase of shares under our share repurchase program, as discussed further in Note 19 to the consolidated financial statements included elsewhere in this annual report. As of December 31, 2022, we have paid down the borrowings on the asset-backed revolver and have no remaining outstanding balance.

During June 2021, we made a principal debt repayment of €58.7 million ($69.5 million) against our Euro Term Loan facility. As a result of this repayment, we accelerated the recognition of $0.4 million of deferred financing costs (recognized in interest expense).

Dollar Term Loan credit agreement amendments

On November 16, 2022, we amended the credit agreement governing our term loan facilities to pay off and replace our Euro Term Loan with a new class of $575.0 million of New Dollar Term Loans as described above.

During the third quarter of 2021, as a consequence of the amendments described above, the margin on the Existing Dollar Term Loans was reduced by 0.25% as the consolidated total net leverage ratio (as defined in the credit agreement) dropped below 3.75 times.

On February 24, 2021, we made amendments to the credit agreement governing the our term loan facilities, including extending its maturity date from March 31, 2024 to March 31, 2027, reducing the interest rate floor applicable to the Existing Dollar Term Loans from 1.00% to 0.75% and modifying the applicable interest rate margin for the Existing Dollar Term Loans to include a 0.25% reduction if our consolidated total net leverage ratio (as defined in the credit agreement) is less than or equal to 3.75 times. In connection with these amendments, we paid accrued interest up to the date of the amendments of $3.7 million, in addition to fees of approximately $8.6 million, of which $6.9 million qualified for deferral and are being amortized to interest expense over the new remaining term of the Existing Dollar Term Loans using the effective interest method.

Revolver extensions

On November 18, 2021, we amended the credit agreements governing both of our revolving credit facilities to, among other things, increase the size of the cash flow revolving credit facility from $185.0 million to $250.0 million, and decrease the maximum commitments available under the asset-backed revolver from $325.0 million to $250.0 million. In addition, the letter of credit sub-facility under the cash flow revolving credit facility was increased from $20.0 million to $75.0 million. The maturity dates of both revolving credit facilities were also extended from January 29, 2023 to November 18, 2026 (subject to certain springing maturities related to our Unsecured Senior Notes if more than $500.0 million is outstanding in respect of either such facility 91 days prior to their respective maturities).

In connection with these amendments, we paid fees of $3.3 million, which have been deferred and will, together with existing deferred issuance costs related to these facilities, be amortized to interest expense over the new term of the facilities on a straight-line basis.

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 December 31, 2022, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 72% of our net sales and 69% of our EBITDA as defined in the financial covenants attaching to the senior secured credit facilities. As of December 31, 2022, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 62% 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 Fiscal 2022, our Net Debt decreased by $8.0 million from $1,921.0 million as of January 1, 2022 to $1,913.0 million as of December 31, 2022. Net Debt was impacted favorably by $54.3 million due to movements in currency exchange rates, related primarily to the impact of the weakening of the Euro against the U.S. dollar on our Euro-denominated debt. The favorable movement in currency exchange rate resulted in a lower U.S. dollar equivalent balance of our Euro Term Loan facility refinanced and replaced by the New Dollar Term Loan in November 2022. Excluding this impact, Net Debt increased by $46.3 million, which was driven primarily by $175.9 million paid to acquire shares under our share repurchase program, plus capital expenditures of $87.0 million, dividends paid to non-controlling interests of $28.7 million, and $23.3 million debt origination and issuance costs of incurred in respect of the New Dollar Term loans drawn in November 2022, partially offset by cash provided by operating activities of $265.8 million.

Borrowing Headroom

As of December 31, 2022, our asset-backed revolving credit facility had a borrowing base of $214.7 million, being the maximum amount we can draw down based on the current value of the secured assets. As of December 31, 2022, there were letters of credit outstanding against the facility amounting to $25.8 million. We also have a secured revolving credit facility that provides for multi-currency revolving loans up to an aggregate principal amount of $250.0 million, with no amounts drawn as of December 31, 2022.

In total, our committed borrowing headroom was $438.9 million, in addition to cash balances of $578.4 million.

Tabular Disclosure of Contractual Obligations

Our consolidated contractual obligations and commercial commitments are summarized in the following table which includes aggregate information about our contractual obligations as of December 31, 2022 and the periods in which payments are due, based on the earliest date on which we could be required to settle the liabilities. The table below excludes our gross liability for uncertain tax positions of $79.5 million because the timing of cash settlement, if any, is unknown at this time.

Floating interest payments and payments and receipts on interest rate derivatives are estimated based on market interest rates prevailing at the balance sheet date. Amounts in respect of purchase obligations are items that we are obligated to pay in the future, but they are not required to be included on the consolidated balance sheet.

		Earliest period in which payments are due			
(dollars in millions)	Total	2023	2024 and 2025	2026 and 2027	2028 and beyond
Debt:					
—Principal	**$ 2,491.4**	$ 19.5	$ 39.0	$ 1,888.0	$ 544.9
—Interest payments[1]	**756.6**	182.7	317.5	185.4	71.0
Finance leases	**2.5**	1.1	1.2	0.2	—
Operating leases	**178.4**	29.2	47.3	33.3	68.6
Post-retirement benefits[2]	**12.4**	12.4	—	—	—
Purchase obligations[3]	**44.0**	33.9	10.1	—	—
Total	**$ 3,485.3**	**$ 278.8**	**$ 415.1**	**$ 2,106.9**	**$ 684.5**

(1) Future interest payments include payments on fixed and floating rate debt. Floating rate interest payments are estimated based on forward market interest rates and terms prevailing as of December 31, 2022.

(2) Post-retirement benefit obligations represent our expected cash contributions to defined benefit pension and other post-retirement benefit plans in 2023. It is not practicable to present expected cash contributions for subsequent years because they are determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations.

(3) A purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

Cash Balances

As of December 31, 2022, our total cash and cash equivalents were $578.4 million, compared to $658.2 million as of January 1, 2022.

Restricted cash was $3.0 million as of December 31, 2022, compared to $2.7 million as of January 1, 2022, including $0.6 million as of December 31, 2022 and $1.0 million as of January 1, 2022, which was held in escrow for insurance purposes. Cash held in our non-wholly owned Asian subsidiaries was $161.3 million and $168.4 million as of December 31, 2022 and January 1, 2022, respectively.

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 certain of our peer companies. 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 equity and debt transactions;
- asset impairments;
- restructuring expenses, including severance-related expenses;
- fees paid to our private equity sponsor for monitoring, advisory and consulting services; and
- inventory adjustments related to certain inventories accounted for on the 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. In particular, we exclude the effect on cost of sales of the uplift to the carrying amount of inventory held by entities acquired by Gates. 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, 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:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Net income from continuing operations	$ 242.9	$ 331.3	$ 90.3
Income tax expense (benefit)	14.9	18.4	(19.3)
Net interest and other expenses	126.2	134.4	140.1
Depreciation and amortization	217.2	222.6	218.6
EBITDA	**601.2**	**706.7**	**429.7**
Transaction-related expenses [1]	2.1	3.7	5.2
Asset impairments	1.1	0.6	5.2
Restructuring expenses	9.5	7.4	37.3
Share-based compensation expense	44.3	24.6	19.8
Sponsor fees (included in other operating expense)	—	—	1.9
Inventory impairments and adjustments [2] (included in cost of sales)	20.9	1.4	1.4
Severance expenses (included in cost of sales)	0.8	—	1.0
Severance expenses (included in SG&A)	0.5	0.7	8.0
Other items not directly related to current operations	0.2	(9.3)	(2.9)
Adjusted EBITDA	**$ 680.6**	**$ 735.8**	**$ 506.6**

(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. The recent inflationary environment has caused LIFO values to drop below First-in, First-out ("FIFO") values because LIFO measurement results in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

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.

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Net sales	$ 3,554.2	$ 3,474.4	$ 2,793.0
Adjusted EBITDA	$ 680.6	$ 735.8	$ 506.6
Adjusted EBITDA margin	19.1 %	21.2 %	18.1 %

Core growth reconciliations

Core revenue 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.

	For the year ended December 31, 2022		
(dollars in millions)	Power Transmission	Fluid Power	Total
Net sales for the year ended December 31, 2022	$ 2,173.7	$ 1,380.5	**$ 3,554.2**
Impact on net sales of movements in currency rates	149.2	35.9	**185.1**
Core revenue for the year ended December 31, 2022	2,322.9	1,416.4	**3,739.3**
Net sales for the year ended January 1, 2022	2,216.3	1,258.1	**3,474.4**
Increase in net sales on a core basis (core revenue)	$ 106.6	$ 158.3	**$ 264.9**
Core revenue growth	4.8 %	12.6 %	**7.6 %**

	For the year ended January 1, 2022		
(dollars in millions)	Power Transmission	Fluid Power	Total
Net sales for the year ended January 1, 2022	$ 2,216.3	$ 1,258.1	**$ 3,474.4**
Impact on net sales of movements in currency rates	(49.2)	(27.1)	**(76.3)**
Core revenue for the year ended January 1, 2022	2,167.1	1,231.0	**3,398.1**
Net sales for the year ended January 2, 2021	1,800.2	992.8	**2,793.0**
Increase in net sales on a core basis (core revenue)	$ 366.9	$ 238.2	**$ 605.1**
Core revenue growth	20.4 %	24.0 %	**21.7 %**

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 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 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 December 31, 2022	As of January 1, 2022
Principal amount of debt	$ 2,491.4	$ 2,579.2
Less: Cash and cash equivalents	(578.4)	(658.2)
Net debt	**$ 1,913.0**	**$ 1,921.0**

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

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Principal amount of debt	$ 2,491.4	$ 2,579.2
Accrued interest	17.1	16.9
Deferred issuance costs	(45.5)	(31.5)
Carrying amount of debt	**$ 2,463.0**	**$ 2,564.6**

Adjusted EBITDA adjustments for ratio calculation purposes

The financial maintenance ratio in our revolving 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 revolving credit facility, 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 Global LLC 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 $6.6 million.

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 Global LLC, an indirect subsidiary of Gates Industrial Corporation plc, is the borrower under our revolving credit facility and our term loan facility and the issuer of 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 Global LLC and those for the Company that are included elsewhere in this report is a payable of $117.3 million due to Gates Global LLC and its subsidiaries from indirect parent entities of Gates Global LLC as of December 31, 2022, compared to a payable of $0.9 million as of January 1, 2022, and additional cash and cash equivalents held by the Company and other indirect parents of Gates Global LLC of $6.4 million and $12.7 million as of December 31, 2022 and January 1, 2022, respectively.

Critical Accounting Estimates and Judgments

Details of our significant accounting policies are set out in Note 2 to our audited consolidated financial statements included elsewhere in this annual report.

When applying our accounting policies, we must make assumptions, judgments and estimates concerning the future that affect reported amounts of assets, liabilities, revenue and expenses. We make these assumptions, estimates and judgments based on factors such as historical experience, the observance of trends in the industries in which we operate and information available from our customers and other outside sources. Due to the inherent uncertainty involved in making assumptions, estimates and judgments, the actual outcomes could be different. The policies discussed below are considered by management to be more critical than other policies because their application involves a significant amount of estimation uncertainty that increases the risk of a material adjustment to the carrying amounts of our assets and liabilities.

Net Sales

We derive our net sales primarily from the sale of 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.

In most of our agreements with customers, we consider accepted customer purchase orders, which in some cases are governed by master sales agreements, to represent the contracts with our customers. Revenue from the sale of goods under these contracts is measured at the invoiced amount, net of estimated returns, early settlement discounts and rebates. Taxes collected from customers relating to product sales and remitted to government authorities are excluded from revenues. Where a customer has the right to return goods, future returns are estimated based on historical returns profiles. Settlement discounts that may apply to unpaid invoices are estimated based on the settlement histories of the relevant customers.

Our transaction prices often include variable consideration, usually in the form of discounts and rebates that may apply to issued invoices. The reduction in the transaction price for variable consideration requires that we make estimates of the expected total qualifying sales to the relevant customers. These estimates, including an analysis for potential constraint on variable consideration, take into account factors such as the nature of the rebate program, historical information and expectations of customer and consumer behavior. Overall, the transaction price is reduced to reflect our estimate of the amount of consideration that is not probable of significant reversal.

We allocate the transaction price to each distinct performance obligation based on their relative standalone selling price. The product price as specified on the accepted purchase order or similar binding contract is considered to be the standalone selling price. In substantially all of our contracts with customers, our performance obligations are satisfied at a point in time, rather than over a period of time, when control of the product is transferred to the customer. This occurs typically at shipment. In determining whether control has transferred and the customer is consequently able to control the use of the product for their own benefit, we consider if there is a present right to payment, legal title and physical possession has been transferred, whether the risks and rewards of ownership have transferred to the customer, and if acceptance of the asset by the customer is more than perfunctory.

Impairment of Goodwill and Other Indefinite-Lived Assets

Goodwill and other indefinite-lived intangible assets are subject to an annual impairment test but are also tested for impairment if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount.

Goodwill

Goodwill arising in a business combination is allocated to the reporting unit that is expected to benefit from the synergies of the acquisition. Where goodwill is attributable to more than one reporting unit, the goodwill is determined by allocating the purchase consideration in proportion to their respective business enterprise values and comparing the allocated purchase consideration with the fair value of the identifiable assets and liabilities of the reporting unit.

Goodwill is not amortized but is tested for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment.

To identify a potential impairment of goodwill, the fair value of the reporting unit to which the goodwill is allocated is compared to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. If the fair value is lower than the carrying amount, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the amount of goodwill allocated to that reporting unit.

Management based the fair value calculations on a weighted blend of the income and market approaches. The income approach was based on cash flow forecasts derived from the most recent financial plans approved by the board of directors, in which the principal assumptions were those regarding sales growth rates, selling prices and changes in direct costs. Forecasts for the future years were based on region-specific growth or decline assumptions determined by management, taking into account market trends and strategic initiatives. The terminal growth rate for both reporting units was set at 2.5%, a rate that does not exceed the expected long-term growth rates in the respective principal end markets.

Management applied discount rates to the resulting cash flow projections that reflect current market assessments of the time value of money and the risks specific to each reporting unit. In each case, the discount rate was determined using a capital asset pricing model. The discount rates used in the impairment tests of goodwill during Fiscal 2022 were 10.5% for both reporting units.

For both reporting units, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2022.

We base our fair value estimates on assumptions we believe to be reasonable at the time but that are unpredictable and inherently uncertain. In addition, we make certain judgments and assumptions in allocating goodwill between reporting units and in allocating shared assets and liabilities to determine the carrying values for each of our reporting units tested. Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years.

Indefinite-Lived Assets Other than Goodwill

To identify a potential impairment of indefinite-lived assets other than goodwill, the fair value of the asset is compared to its carrying amount. If the fair value of the indefinite-lived asset exceeds its carrying amount, it is not considered impaired. Fair value is calculated based on the anticipated net cash inflows and outflows related to the indefinite-lived asset.

During the periods covered by this annual report, we held an indefinite-lived brand and trade name intangible asset. We test the intangible for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment.

The fair value for our indefinite-lived brand and trade name intangible asset was determined using a relief from royalty valuation methodology in which the key assumptions included sales growth rates and an estimated royalty rate. Sales forecasts were determined on the same basis as those used for the annual impairment testing of goodwill (as described above).

Management applied discount rates to the calculated royalty savings that reflect current market assessments of the time value of money and the risks specific to each region in which those royalty savings arose. In each case, the discount rate was determined using a capital asset pricing model adjusted for a premium to reflect the higher risk specific to the nature of the intangible asset. The discount rate used in Fiscal 2022 impairment test was 11.5%. As a result of the impairment testing, no impairment was recognized during Fiscal 2022.

We base our fair value estimates on assumptions we believe to be reasonable at the time but that are unpredictable and inherently uncertain. Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years.

Taxation

We are subject to income tax in most of the jurisdictions in which we operate. Management is required to exercise significant judgment in determining our provision for income taxes. Management’s judgment is required in relation to unrecognized income tax benefits whereby additional current tax may become payable in the future following the audit by tax authorities of previously-filed tax returns. It is possible that the final outcome of these unrecognized income tax benefits may differ from management’s estimates.

Management assesses unrecognized income tax benefits based upon an evaluation of the facts, circumstances and information available at the balance sheet date. Provision is made for unrecognized tax benefits to the extent that the amounts previously taken or expected to be taken in tax returns exceeds the tax benefits that are recognized in the consolidated financial statements in respect of the tax positions. A tax benefit is recognized in the consolidated financial statements only if management considers that it is more likely than not that the tax position will be sustained on examination by the relevant tax authority solely on the technical merits of the position and is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement assuming that the tax authority has full knowledge of all relevant information. Provisions for unrecognized income tax benefits are reviewed regularly and are adjusted to reflect events such as the expiration of limitation periods for assessing tax, guidance given by the tax authorities and court decisions.

Deferred income tax assets and liabilities are recognized based on the expected future tax consequences of the difference between the financial statement carrying amount and the respective tax basis. Deferred income taxes are measured on the enacted rates expected to apply to taxable income at the time the difference is anticipated to reverse. Deferred income tax assets are reduced through the establishment of a valuation allowance if it is more likely than not that the deferred income tax asset will not be realized taking into account the timing and amount of the reversal of taxable temporary differences, expected future taxable income and tax planning strategies.

Deferred income tax is provided on certain taxable temporary differences arising on investments in foreign subsidiaries, except where we intend, and are able, to reinvest such amounts on a permanent basis or to remit such amounts in a tax-free manner.

We have recorded valuation allowances against certain of our deferred income tax assets and we intend to continue maintaining such valuation allowances until there is sufficient evidence to support the reduction of all or some portion of these allowances. During Fiscal 2022, we determined that it was more likely than not that certain deferred income tax assets in the U.S. totaling $15.3 million were realizable. During Fiscal 2021, we determined that it was more likely than not that certain deferred income tax assets in the U.S. totaling $53.4 million were realizable.

Accounting Pronouncements Not Yet Adopted

Recently issued accounting pronouncements that may be relevant to our operations but have not yet been adopted are outlined in Note 3 to our audited consolidated financial statements included elsewhere in this annual report.

Item 7A. 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, 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.

On a regular basis, we monitor third-party depository institutions that hold our cash and short-term investments and we diversify these assets among counterparties to minimize exposure to any one of these entities. We also monitor the creditworthiness of our customers and suppliers to mitigate any adverse impact.

Foreign Currency Exchange Risk

We have global operations and thus make investments and enter into transactions denominated in various foreign currencies. Our operating results are impacted by buying, selling and financing in currencies other than the functional currency of our operating companies. We monitor exposure to transactions denominated in currencies other than the functional currency of each country in which we operate, and enter into forward contracts to mitigate that exposure as needed. We also naturally hedge foreign currency through our production in the countries in which we sell our products.

In addition, we are exposed to currency risk associated with translating our non-U.S. dollar majority-owned subsidiaries' financial statements into U.S. dollars, which is our reporting currency. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar. Translational foreign exchange risks arise predominantly on the potential decreases in the value of our earnings, cash balances and other net assets denominated in euro and other currencies when translated to U.S. dollars.

The currency profiles of our cash and debt are centrally managed as are decisions about the location of cash. The currency profile of cash and debt, after taking into account the effect of the currency swaps and forwards used to manage those profiles, were as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Cash and cash equivalents by currency:		
—U.S. dollar	$ 244.6	$ 346.2
—Chinese Yuan Renminbi	115.9	109.7
—Indian Rupee	17.4	14.9
—Euro	32.2	32.5
—Japanese Yen	29.6	42.1
—Other	138.7	112.8
	$ 578.4	**$ 658.2**
Principal amount of debt by currency:		
—U.S. dollar	$ 1,684.9	$ 1,641.9
—Euro	806.5	937.3
	$ 2,491.4	**$ 2,579.2**

As described in Note 13 to the audited consolidated financial statements included elsewhere in this annual report, during Fiscal 2022 we refinanced and replaced our Euro-denominated term loan with new U.S. Dollar term loans and executed additional cross currency swaps that have been designated as net investment hedges in the principal amount of €501.6 million, and as a result, the net investment hedging designated on our Euro-denominated debt no longer exists. During Fiscal 2021 we had designated a portion of our Euro Term Loans, as well as a €254.5 million cross currency swap, as hedges of a portion of our net investment in euro-denominated foreign operations. Changes in the value of these instruments resulting from fluctuations in the euro to U.S. dollar exchange rate are accordingly recorded as foreign currency translation adjustments within other comprehensive income.

Interest Rate Risk

Our prevailing market risk on interest rates is the potential fluctuation in interest costs and in the fair value of long-term debt resulting from movements in interest rates.

We use interest rate derivatives as part of our interest rate risk management strategy to add stability to interest expense and to manage our exposure to interest rate movements. The interest rate caps that we have entered into historically were designated as cash flow hedges and involved the receipt of variable rate payments from a counterparty if interest rates rise above the strike rate on the contract in exchange for a premium. The following table summarizes the key terms of the active interest rate derivatives held by the Company:

	Notional principal amount (millions)		Interest rate				
			Payable		Receivable		
			Variable	Fixed	Variable	Fixed	Variable rate index
As of December 31, 2022							
Maturity date:							
—June 2025	$	870.0	— %	2.5 %	4.4 %	— %	1 month LIBOR
—November 2027	$	385.0	— %	7.6 %	7.8 %	— %	1 month Term SOFR
As of January 1, 2022							
Maturity date:							
—June 2025	$	870.0	— %	2.5 %	1.0 %	— %	1 month LIBOR
—June 2023	€	425.0	— %	0.3 %	— %	— %	3 month EURIBOR

The interest rate profile of the Company's financial assets and liabilities, after taking into account the effect of the interest rate hedging activities, was as follows:

	As of December 31, 2022				As of January 1, 2022			
	Interest-bearing				Interest-bearing			
(dollars in millions)	Floating rate	Fixed rate	Non-interest bearing	Total	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets:								
Available-for-sale investments	$ —	$ —	$ —	**$ —**	$ —	$ —	$ 0.6	**$ 0.6**
Cash and cash equivalents	222.5	—	355.9	**578.4**	203.5	—	454.7	**658.2**
Restricted cash	—	—	3.0	**3.0**	—	—	2.7	**2.7**
	222.5	**—**	**358.9**	**581.4**	**203.5**	**—**	**458.0**	**661.5**
Financial liabilities:								
Debt	(668.4)	(1,823.0)	—	**(2,491.4)**	(657.3)	(1,921.9)	—	**(2,579.2)**
Obligations under finance leases	—	(2.4)	—	**(2.4)**	—	(3.3)	—	**(3.3)**
	(668.4)	**(1,825.4)**	**—**	**(2,493.8)**	**(657.3)**	**(1,925.2)**	**—**	**(2,582.5)**
	$ (445.9)	**$ (1,825.4)**	**$ 358.9**	**$ (1,912.4)**	**$ (453.8)**	**$ (1,925.2)**	**$ 458.0**	**$ (1,921.0)**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Our debt facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. We aim to reduce liquidity risk by diversifying our funding sources, maintaining adequate headroom under our debt facilities and by staggering the maturities of our debt.

We have established long-term credit ratings of B1 Stable with Moody's and B+ Stable with Standard & Poor's. Credit ratings are subject to regular review by the credit rating agencies and may change in response to economic and commercial developments.

For the expected timing of contractual cash flows relating to our financing arrangements, see the table set out above under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations under Financing Arrangements and Other Commitments."

Commodity Risk

We source a wide variety of materials and components from a network of global suppliers. While such materials are typically available from numerous suppliers, commodity raw materials such as aluminum, steel and polymers are subject to price fluctuations, which could have a negative impact on our results. We primarily manage these risks through normal operating activities. We strive to pass along such commodity price increases to customers to avoid profit margin erosion and utilize lean initiatives and materials science capabilities to further mitigate the impact of commodity raw material price fluctuations as we achieve improved efficiencies. We historically have not entered into any derivative commodity instruments to manage the exposure to changing price risk for supplies, but we will continue to evaluate their viability.

Credit risk

Our principal financial assets are cash and cash equivalents, derivatives, trade and other receivables and investments.

We regularly monitor third-party depository institutions that hold our cash and short-term investments, primarily for safety of principal and secondarily for maximizing yield on those funds. We diversify our cash and short-term investments among counterparties to minimize exposure to any one of these entities.

The credit risk on derivative financial instruments is limited because the counterparties are financial institutions with high credit-ratings assigned by international credit-rating agencies.

To mitigate the credit risk attributable to our trade receivables we perform credit verifications and monitor closely the creditworthiness of new and existing customers. The amounts presented in the balance sheet for trade receivables are net of allowances for expected credit losses. We develop expected loss estimates based either on the aging profile of outstanding receivables or by applying an experience factor (either a percentage of sales or a percentage of open receivables). These methodologies are based primarily on historical trends and experience, but credit controllers also regularly assess individual customer accounts to identify any potential increases or decreases in the level of expected credit loss needed to be applied to each customer based on current circumstances and future expectations.

Two customers of our North America businesses accounted for 15.3% and 8.4%, respectively, of our total trade accounts receivable balance as of December 31, 2022, compared to 13.9% and 10.0%, respectively, as of January 1, 2022. These concentrations are due to the extended payment terms common in the industry in which these businesses operate.

We have no other significant concentrations of credit risk as our exposure is spread over a large number of customers and counterparties.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is included as a separate section in this annual report. See Part IV. Item 15. “Exhibits, Financial Statement Schedules,” which is incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance 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 and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this annual report. Based upon that evaluation required by paragraph (b) of Rules 13a-15 or 15d-15, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2022, the Company's disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, misstatements due to error or fraud may not be prevented or detected on a timely basis.

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, performed an assessment of the effectiveness of the Company's internal control over financial reporting at December 31, 2022, utilizing the criteria discussed in the "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether our internal control over financial reporting was effective at December 31, 2022. Based on management's assessment, we have concluded that our internal control over financial reporting was effective at December 31, 2022.

Deloitte & Touche LLP (PCAOB ID No. 34), the independent registered public accounting firm that audited the Company's consolidated financial statements included elsewhere in this report, has issued an attestation report on our internal control over financial reporting as of December 31, 2022, as stated in its report which is included herein.

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.

Item 9B. Other Information

On February 7, 2023, Grant Gawronski notified Gates Industrial Corporation plc (the "Company") of his intention to retire as the Company's Executive Vice President and Chief Commercial Officer, effective by the end of the second quarter of 2023 ("Retirement Date"). In light of Mr. Gawronski's service to the Company, the exercise period for Mr. Gawronski's vested but unexercised option awards will be extended from 60 days after his Retirement Date to one year after his Retirement Date. Other than the exercise extension, Mr. Gawronski is not expected to be given additional compensation related to his retirement.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The information called for by this Item 10 is incorporated by reference to our definitive proxy statement for our 2023 annual general meeting of shareholders (our “2023 Proxy Statement”), anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2022, under the headings “Proposal 1- Election of Directors,” “Corporate Governance,” and, if applicable, “Delinquent Section 16(a) Reports.”

Code of Ethics

We maintain a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, which is posted on our website at www.gates.com under “About Us: Investor Relations: Governance: Governance Documents.” Our Code of Business Conduct and Ethics is a “code of ethics,” as defined in Item 406(b) of Regulation S-K. We will make any legally required disclosures regarding amendments to, or waivers of, provisions of our code of ethics on our website. The information contained on, or accessible from, our website is not part of this annual report by reference or otherwise.

Item 11. Executive Compensation

The information called for by this Item 11 is incorporated by reference to our 2023 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2022, under the headings “Executive Compensation” and “Corporate Governance - Compensation Interlocks and Insider Participation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this Item 12 is incorporated by reference to our 2023 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2022, under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by this Item 13 is incorporated by reference to our 2023 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2022, under the headings “Corporate Governance” and “Related-Person Transactions Policies and Procedures.”

Item 14. Principal Accountant Fees and Services

The information called for by this Item 14 is incorporated by reference to our 2023 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2022, under the heading “Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

The financial statements filed as part of this report are indexed below. Financial statement schedules have been omitted since they either are not required, not applicable, or the information is otherwise included.

Index to Financial Statements

Audited Consolidated Financial Statements of Gates Industrial Corporation plc and its subsidiaries:

Exhibits

		Incorporated by Reference		
Exhibit No.	Description	Form	Exhibit	Filing Date
3.1	Certificate of Incorporation of Gates Industrial Corporation plc	S-1	3.1	1/8/2018
3.2	Articles of Association of Gates Industrial Corporation plc, effective October 7, 2019	10-Q	3.2	11/6/2019
4.1	Description of Securities of Gates Industrial Corporation plc	10-K	4.1	2/10/2021
4.2	Indenture, dated as of November 22, 2019, by and among Gates Global LLC, Gates Corporation, the subsidiary guarantors named on the signature pages thereto and U.S. Bank National Association, as trustee, which includes the Form of 6.25% Senior Notes due 2026	8-K	4.1	11/27/2019
10.1	Shareholders Agreement	8-K	10.1	1/29/2018
10.2	Registration Rights Agreement	8-K	10.2	1/29/2018
10.3	Monitoring Fee Agreement	8-K	10.3	1/29/2018
10.4	Support and Services Agreement	8-K	10.4	1/29/2018
10.5	Agreement for the Provision of Depositary Services and Custody Services in respect of Gates Industrial Corporation plc Depositary Receipts	8-K	10.5	1/29/2018
10.6	Second Amended and Restated Credit Agreement, dated as of November 18, 2021, among the U.S. Borrower, the Canadian Borrower, the other guarantors party thereto, Citibank, N.A., as administrative agent and collateral agent and the other parties and lenders party thereto.	8-K	10.2	11/22/2021
10.7	Credit Agreement, dated as of July 3, 2014, among Omaha Holdings LLC, Gates Global LLC, the guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent, collateral agent, swing line lender and L/C issuer, and the lenders party thereto	S-1	10.18	12/27/2017
10.8	Amendment No. 1 to Credit Agreement, dated as of April 7, 2017, among Omaha Holdings LLC, Gates Global LLC, the guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as the additional B-1 euro term lender and additional B-1 dollar term lender	S-1	10.19	12/27/2017
10.9	Amendment No. 2 to Credit Agreement, dated as of November 22, 2017, among Omaha Holdings LLC, Gates Global LLC, the guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as the additional B-2 euro term lender and additional B-2 dollar term lender	S-1	10.20	12/27/2017

10.10	Amendment No. 3, dated as of January 24, 2018, to the Credit Agreement dated as of July 3, 2014, among Omaha Holdings LLC, Gates Global LLC, the guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, and the lenders party thereto	8-K	10.6	1/29/2018
10.11	Amendment No. 4, dated as of February 24, 2021, to the Credit Agreement dated as of July 3, 2014 (as amended by Amendment No. 1 thereto, dated as of April 7, 2017, Amendment No. 2 thereto, dated as of November 22, 2017, and Amendment No. 3 thereto, dated as of January 24, 2018) among the Borrower, Omaha Holdings LLC, the other guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent and the other parties and lenders party thereto.	8-K	10.1	3/1/2021
10.12	Amendment No. 5, dated as of November 18, 2021, to the Credit Agreement, dated as of July 3, 2014 (as amended by Amendment No. 1 thereto, dated as of April 7, 2017, Amendment No. 2 thereto, dated as of November 22, 2017, Amendment No. 3 thereto, dated as of January 24, 2018, and Amendment No. 4 thereto, dated as of February 24, 2021) among the U.S. Borrower, Omaha Holdings LLC, the other guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent and the other parties and lenders party thereto.	8-K	10.1	11/22/2021
10.13	Amendment No. 6, dated as of November 16, 2022, to the Credit Agreement dated as of July 3, 2014 (as amended by Amendment No. 1 thereto, dated as of April 7, 2017, Amendment No. 2 thereto, dated as of November 22, 2017, Amendment No. 3 thereto, dated as of January 24, 2018, Amendment No. 4, dated as of February 24, 2021, and Amendment No. 5, dated as of November 18, 2021) among the Borrower, Omaha Holdings LLC, the other guarantors party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, and the other parties and lenders party thereto.	8-K	10.1	11/21/2022
10.14	ABL Intercreditor Agreement, dated as of July 3, 2014, among Citibank, N.A., as ABL agent, Credit Suisse AG, Cayman Islands Branch, as cash flow agent, Gates Global LLC, Omaha Holdings LLC and the other grantors party thereto	S-1	10.23	12/27/2017
10.15	Security Agreement, dated as of July 3, 2014, among Omaha Holdings LLC, Gates Global LLC, the other grantors party thereto and Citibank, N.A., as collateral agent for the secured parties	S-1	10.24	12/27/2017
10.16	Security Agreement, dated as of July 3, 2014, among Tomkins Automotive Canada Limited, Gates Canada Inc. and Citibank, N.A., as collateral agent for the secured parties	S-1	10.25	12/27/2017
10.17	Security Agreement, dated as of July 3, 2014, among Omaha Holdings LLC, Gates Global LLC, the other grantors party thereto and Credit Suisse AG, Cayman Islands Branch, as collateral agent for the secured parties	S-1	10.26	12/27/2017
10.18	Gates Industrial Corporation plc 2014 Stock Incentive Plan†	10-K	10.15	2/14/2019
10.19	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (Pre-2017 grants to Ivo Jurek and Walter Lifsey)†	10-K	10.16	2/14/2019
10.20	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (Pre-2017 grant to Tom Pitstick)†	10-K	10.17	2/14/2019
10.21	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (2017 grant to Ivo Jurek)†	10-K	10.18	2/14/2019
10.22	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (2017 grant to Tom Pitstick)†	10-K	10.19	2/14/2019
10.23	Form of Management Equity Subscription Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan†	10-K	10.20	2/14/2019
10.24	Gates Industrial Corporation plc 2015 Non-Employee Director Stock Incentive Plan†	10-K	10.21	2/14/2019
10.25	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2015 Non-Employee Director Stock Incentive Plan†	10-K	10.22	2/14/2019
10.26	Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.1	11/2/2018
10.27	Form of Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.2	5/3/2018
10.28	Form of Time-Based Restricted Stock Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.2	11/2/2018

10.29	Form of Time-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Non-Employee Director)†	10-Q	10.3	11/2/2018
10.30	Form of Time-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Employee)†	10-Q	10.4	11/2/2018
10.31	Form of Stock Appreciation Right Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.5	11/2/2018
10.32	Form of Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (3 yr.)†	10-Q	10.1	5/8/2019
10.33	Form of Time-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Employee)†	10-Q	10.2	5/8/2019
10.34	Form of Time-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Non-Employee Director)†	10-Q	10.3	5/8/2019
10.35	Form of Performance-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.4	5/8/2019
10.36	Special Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (5 yr.)†	10-Q	10.5	5/8/2019
10.37	Form of Time-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Executive Officer), effective January 1, 2020.†	10-K	10.34	2/21/2020
10.38	Form of Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (Executive Officer), effective January 1, 2020.†	10-K	10.35	2/21/2020
10.39	Form of Performance-Based Restricted Stock Unit Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan, effective January 1, 2020.†	10-K	10.36	2/21/2020
10.40	Gates Corporation Supplemental Retirement Plan, amended and restated effective March 8, 2018†	10-Q	10.1	5/3/2018
10.41	Form of Director and Officer Deed of Indemnity†	S-1	10.12	1/8/2018
10.42	Form of Executive Severance Plan†	S-1	10.15	12/27/2017
10.43	Form of Executive Change in Control Plan†	S-1	10.16	12/27/2017
10.44	Retirement and Transition Agreement, dated July 25, 2022, between the Company and Walter Lifsey†	8-K	10.1	7/29/2022
21.1	Subsidiaries of the Registrant*			
23.1	Consent of Deloitte & Touche LLP*			
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**			
101	The following financial information from Gates Industrial Corporation's Annual Report on Form 10-K for the year ended December 31, 2022, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations for the years end ended December 31, 2022, January 1, 2022 and January 2, 2021 (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2022, January 1, 2022 and January 2, 2021 (iii) Consolidated Balance Sheets as of December 31, 2022 and January 1, 2022, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2022, January 1, 2022 and January 2, 2021 (v) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2022, January 1, 2022 and January 2, 2021, and (vi) Notes to the Consolidated Financial Statements.*			
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)			

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement.

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.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 and as Principal Financial Officer)

Date: February 9, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 9, 2023.

Signature	Title
/s/ Ivo Jurek Ivo Jurek	Chief Executive Officer and Director (Principal Executive Officer)
/s/ L. Brooks Mallard L. Brooks Mallard	Chief Financial Officer (Principal Financial Officer)
/s/ David M. Wisniewski David M. Wisniewski	Chief Accounting Officer (Principal Accounting Officer)
/s/ Neil P. Simpkins Neil P. Simpkins	Director
/s/ Fredrik J. Eliasson Fredrik J. Eliasson	Director
/s/ James W. Ireland, III James W. Ireland, III	Director
/s/ Stephanie K. Mains Stephanie K. Mains	Director
/s/ Seth Meisel Seth Meisel	Director
/s/ Wilson S. Neely Wilson S. Neely	Director
/s/ Alicia Tillman Alicia Tillman	Director
/s/ Peifang Zhang Peifang Zhang	Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Gates Industrial Corporation plc

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Gates Industrial Corporation plc and subsidiaries (the "Company") as of December 31, 2022 and January 1, 2022, the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity, for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and January 1, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill and Intangible Assets - Refer to Notes 2, 10 and 11 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company determined the fair value of its reporting units using a weighted blend of the income and the market approaches. Similarly, the Company's evaluation of its brands and trade names intangible asset involves the comparison of the fair value of the brands and trade names intangible asset to its carrying value. The Company determined the fair value of the brands and trade names intangible asset using a relief from royalty valuation methodology. The determination of the fair value for both the goodwill and brands and trade names intangible asset impairment analyses required management to make significant estimates and assumptions related to forecasts of future sales. The goodwill balance was $1,981.1 million as of December 31, 2022, of which $665.9 million and $1,315.2 million were allocated to the Fluid Power and Power Transmission reporting units, respectively. The fair values of the Fluid Power and Power Transmission reporting units exceeded their carrying values as of the measurement date and, therefore, no goodwill impairments were recognized. The brands and trade names intangible asset balance was $469.4 million as of December 31, 2022. The fair value of the brands and trade names intangible asset exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized.

Given the significant estimates and assumptions management makes to estimate the fair value of goodwill and the brands and trade names intangible asset for its impairment analyses and the uncertainty in the current economic environment, performing audit procedures to evaluate the reasonableness of management's forecasts of future sales required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasts of sales growth rates used by management to estimate the fair value of goodwill and the brands and trade names intangible asset included the following, among others:

- We tested the effectiveness of controls over management's goodwill and brands and trade names intangible asset impairment evaluations, including those over the determination of the fair value of goodwill and the brands and trade names intangible asset, and controls related to management's forecasts of sales.
- We evaluated management's ability to accurately forecast sales by comparing actual results to management's historical forecasts to determine if the difference between historical forecast and actual results would have a material impact on the goodwill and brands and trade names intangible asset impairment analyses.
- With the assistance of our fair value specialists, we evaluated the reasonableness of management's forecasts of sales by comparing the forecasts to (1) historical and projected financial information of peer companies and other industry participants from external market sources and (2) macroeconomic data on projected growth.
- We evaluated the reasonableness of management's forecasts of sales by comparing forecasts to (1) historical results, (2) internal communications to management and the Board of Directors, and (3) forecast information included in Company press releases as well as in analyst reports of the Company.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 9, 2023

We have served as the Company's auditor since 2014.

Gates Industrial Corporation plc

Consolidated Statements of Operations

(dollars in millions, except per share amounts)	For the year ended December 31, 2022	For the year ended January 1, 2022	For the year ended January 2, 2021
Net sales	$ 3,554.2	$ 3,474.4	$ 2,793.0
Cost of sales	2,303.6	2,135.2	1,758.3
Gross profit	**1,250.6**	**1,339.2**	**1,034.7**
Selling, general and administrative expenses	853.7	852.7	776.9
Transaction-related expenses	2.1	3.7	5.2
Asset impairments	1.1	0.6	5.2
Restructuring expenses	9.5	7.4	37.3
Other operating expense (income)	0.2	(9.3)	(1.0)
Operating income from continuing operations	**384.0**	**484.1**	**211.1**
Interest expense	139.4	133.5	154.3
Other (income) expense	(13.2)	0.9	(14.2)
Income from continuing operations before taxes	**257.8**	**349.7**	**71.0**
Income tax expense (benefit)	14.9	18.4	(19.3)
Net income from continuing operations	**242.9**	**331.3**	**90.3**
Loss on disposal of discontinued operations, net of tax, respectively, of $0, $0 and $0	0.4	—	0.3
Net income	**242.5**	**331.3**	**90.0**
Less: non-controlling interests	21.7	34.2	10.6
Net income attributable to shareholders	**$ 220.8**	**$ 297.1**	**$ 79.4**
Earnings per share			
Basic			
Earnings per share from continuing operations	$ 0.78	$ 1.02	$ 0.27
Earnings per share from discontinued operations	$ —	$ —	$ —
Earnings per share	**$ 0.78**	**$ 1.02**	**$ 0.27**
Diluted			
Earnings per share from continuing operations	$ 0.77	$ 1.00	$ 0.27
Earnings per share from discontinued operations	$ —	$ —	$ —
Earnings per share	**$ 0.77**	**$ 1.00**	**$ 0.27**

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

Gates Industrial Corporation plc

Consolidated Statements of Comprehensive Income

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Net income	**$ 242.5**	**$ 331.3**	**$ 90.0**
Other comprehensive (loss) income			
Foreign currency translation:			
—Net translation (loss) gain on foreign operations, net of tax expense, respectively, of $(2.5), $0 and $0	(159.5)	(105.6)	113.1
—Gain (loss) on net investment hedges, net of tax benefit (expense), respectively, of $8.6, $0 and $(0.1)	2.9	33.8	(41.9)
Total foreign currency translation movements	**(156.6)**	**(71.8)**	**71.2**
Cash flow hedges (interest rate derivatives):			
—Gain (loss) arising in the period, net of tax (expense) benefit, respectively, of $(15.4), $(2.9) and $5.6	46.3	8.8	(23.5)
—Reclassification to net income, net of tax expense, respectively, of $(3.5), $(5.4) and $(2.5)	10.4	16.2	10.2
Total cash flow hedges movements	**56.7**	**25.0**	**(13.3)**
Post-retirement benefits:			
—Current year actuarial movements, net of tax (expense) benefit, respectively, of $11.0, $(5.9) and $(5.8)	(33.4)	21.6	24.8
—Reclassification of prior year actuarial movements to net income, net of tax benefit, respectively, of $0.5, $0 and $0.5	(0.5)	0.1	(1.8)
Total post-retirement benefits movements	**(33.9)**	**21.7**	**23.0**
Other comprehensive (loss) income	**(133.8)**	**(25.1)**	**80.9**
Comprehensive income for the period	**$ 108.7**	**$ 306.2**	**$ 170.9**
Comprehensive income attributable to shareholders:			
—Income arising from continuing operations	$ 128.6	$ 277.3	$ 132.7
—Loss arising from discontinued operations	(0.4)	—	(0.3)
	128.2	**277.3**	**132.4**
Comprehensive (loss) income attributable to non-controlling interests	(19.5)	28.9	38.5
Comprehensive income for the period	**$ 108.7**	**$ 306.2**	**$ 170.9**

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

Gates Industrial Corporation plc

Consolidated Balance Sheets

(dollars in millions, except share numbers and per share amounts)	As of December 31, 2022	As of January 1, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 578.4	$ 658.2
Trade accounts receivable, net	808.6	708.1
Inventories	656.2	682.6
Taxes receivable	13.0	19.1
Prepaid expenses and other assets	221.2	210.7
Total current assets	**2,277.4**	**2,278.7**
Non-current assets		
Property, plant and equipment, net	637.5	670.3
Goodwill	1,981.1	2,063.0
Pension surplus	10.1	75.5
Intangible assets, net	1,490.4	1,642.2
Right-of-use assets	132.2	124.2
Taxes receivable	15.1	15.7
Deferred income taxes	600.3	639.3
Other non-current assets	47.5	24.1
Total assets	**$ 7,191.6**	**$ 7,533.0**
Liabilities and equity		
Current liabilities		
Debt, current portion	$ 36.6	$ 38.1
Trade accounts payable	469.6	506.6
Taxes payable	23.5	34.1
Accrued expenses and other current liabilities	222.6	277.1
Total current liabilities	**752.3**	**855.9**
Non-current liabilities		
Debt, less current portion	2,426.4	2,526.5
Post-retirement benefit obligations	76.2	106.2
Lease liabilities	121.9	116.4
Taxes payable	79.5	103.7
Deferred income taxes	192.0	283.7
Other non-current liabilities	99.7	59.2
Total liabilities	**3,748.0**	**4,051.6**
Commitments and contingencies (Note 22)		
Shareholders' equity		
—Shares, par value of $0.01 each - authorized shares: 3,000,000,000; outstanding shares: 282,578,917 (January 1, 2022: authorized shares: 3,000,000,000; outstanding shares: 291,282,137)	2.8	2.9
—Additional paid-in capital	2,542.1	2,484.1
—Accumulated other comprehensive loss	(917.8)	(825.2)
—Retained earnings	1,482.9	1,437.9
Total shareholders' equity	**3,110.0**	**3,099.7**
Non-controlling interests	333.6	381.7
Total equity	**3,443.6**	**3,481.4**
Total liabilities and equity	**$ 7,191.6**	**$ 7,533.0**

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

Gates Industrial Corporation plc

Consolidated Statements of Cash Flows

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Cash flows from operating activities			
Net income	$ 242.5	$ 331.3	$ 90.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	217.2	222.6	218.6
Foreign exchange and other non-cash financing expenses	5.8	33.2	18.9
Share-based compensation expense	44.3	24.6	19.8
Decrease in post-employment benefit obligations, net	(16.0)	(14.7)	(12.4)
Deferred income taxes	(79.7)	(94.3)	(47.7)
Asset impairments	2.6	2.0	6.6
Other operating activities	6.6	3.7	9.1
Changes in operating assets and liabilities:			
—(Increase) decrease in accounts receivable	(129.3)	(22.3)	9.7
—Decrease (increase) in inventories	2.9	(192.4)	(22.1)
—(Decrease) increase in accounts payable	(15.9)	99.6	28.6
—Decrease (increase) in prepaid expenses and other assets	50.3	(41.3)	6.8
—(Decrease) increase in taxes payable	(24.4)	38.7	(48.1)
—(Decrease) increase in other liabilities	(41.1)	(8.3)	31.2
Net cash provided by operating activities	**265.8**	**382.4**	**309.0**
Cash flows from investing activities			
Purchases of property, plant and equipment	(77.6)	(77.7)	(58.2)
Purchases of intangible assets	(9.4)	(9.3)	(9.2)
Cash paid under corporate-owned life insurance policies	(11.6)	(11.2)	(10.9)
Cash received under corporate-owned life insurance policies	6.0	2.4	1.5
Other investing activities	1.9	9.8	(0.7)
Net cash used in investing activities	**(90.7)**	**(86.0)**	**(77.5)**
Cash flows from financing activities			
Issuance of shares	15.9	4.6	3.1
Repurchase of shares	(175.9)	(10.6)	—
Proceeds from long-term debt	645.0	—	—
Payments of long-term debt	(676.9)	(91.0)	(331.2)
Debt issuance costs paid	(23.3)	(11.7)	(0.3)
Dividends paid to non-controlling interests	(28.7)	(26.6)	(19.0)
Other financing activities	(9.2)	(13.3)	(6.4)
Net cash used in financing activities	**(253.1)**	**(148.6)**	**(353.8)**
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(1.5)	(11.0)	9.8
Net (decrease) increase in cash and cash equivalents and restricted cash	**(79.5)**	**136.8**	**(112.5)**
Cash and cash equivalents and restricted cash at the beginning of the period	660.9	524.1	636.6
Cash and cash equivalents and restricted cash at the end of the period	**$ 581.4**	**$ 660.9**	**$ 524.1**
Supplemental schedule of cash flow information			
Interest paid	$ 118.7	$ 121.2	$ 135.7
Income taxes paid	$ 117.8	$ 83.0	$ 60.4
Accrued capital expenditures	$ 1.9	$ 1.0	$ 1.0

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

Gates Industrial Corporation plc

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
As of December 28, 2019	$ 2.9	$ 2,434.5	$ (858.4)	$ 1,072.0	**$ 2,651.0**	$ 359.7	**$ 3,010.7**
Net income	—	—	—	79.4	**79.4**	10.6	**90.0**
Other comprehensive income, net	—	—	53.0	—	**53.0**	27.9	**80.9**
Total comprehensive income	**—**	**—**	**53.0**	**79.4**	**132.4**	**38.5**	**170.9**
Other changes in equity:							
—Issuance of shares	—	3.1	—	—	**3.1**	—	**3.1**
—Shares withheld for employee taxes	—	(0.3)	—	—	**(0.3)**	—	**(0.3)**
—Share-based compensation	—	19.5	—	—	**19.5**	0.1	**19.6**
—Dividends paid to non-controlling interests	—	—	—	—	**—**	(19.0)	**(19.0)**
As of January 2, 2021	**2.9**	**2,456.8**	**(805.4)**	**1,151.4**	**2,805.7**	**379.3**	**3,185.0**
Net income	—	—	—	297.1	**297.1**	34.2	**331.3**
Other comprehensive (loss), net	—	—	(19.8)	—	**(19.8)**	(5.3)	**(25.1)**
Total comprehensive (loss) income	**—**	**—**	**(19.8)**	**297.1**	**277.3**	**28.9**	**306.2**
Other changes in equity:							
—Issuance of shares	—	4.6	—	—	**4.6**	—	**4.6**
—Shares withheld for employee taxes	—	(0.7)	—	—	**(0.7)**	—	**(0.7)**
—Repurchase and cancellation of shares	—	—	—	(10.6)	**(10.6)**	—	**(10.6)**
—Share-based compensation	—	23.4	—	—	**23.4**	0.1	**23.5**
—Dividends paid to non-controlling interests	—	—	—	—	**—**	(26.6)	**(26.6)**
As of January 1, 2022	**2.9**	**2,484.1**	**(825.2)**	**1,437.9**	**3,099.7**	**381.7**	**3,481.4**
Net income	—	—	—	220.8	**220.8**	21.7	**242.5**
Other comprehensive loss, net	—	—	(92.6)	—	**(92.6)**	(41.2)	**(133.8)**
Total comprehensive (loss) income	**—**	**—**	**(92.6)**	**220.8**	**128.2**	**(19.5)**	**108.7**
Other changes in equity:							
—Issuance of shares	—	15.9	—	—	**15.9**	—	**15.9**
—Shares withheld for employee taxes	—	(1.4)	—	—	**(1.4)**	—	**(1.4)**
—Repurchase and cancellation of shares	(0.1)	—	—	(175.8)	**(175.9)**	—	**(175.9)**
—Share-based compensation	—	43.5	—	—	**43.5**	0.1	**43.6**
—Dividends paid to non-controlling interests	—	—	—	—	**—**	(28.7)	**(28.7)**
As of December 31, 2022	**$ 2.8**	**$ 2,542.1**	**$ (917.8)**	**$ 1,482.9**	**$ 3,110.0**	**$ 333.6**	**$ 3,443.6**

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

Gates Industrial Corporation plc

Notes to the Consolidated Financial Statements

1. Background

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

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

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. Gates is comprised of two operating segments: Power Transmission and Fluid Power.

2. Significant accounting policies

A. Basis of presentation

The 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 accounting policies used in preparing these consolidated financial statements and related notes are the same as those applied in the prior year, except for the adoption on the first day of our 2022 fiscal year of the following new Accounting Standard Update ("ASU"):

- ASU 2021-10 "*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance"*

  In November 2021, the Financial Accounting Standards Board ("FASB") issued this ASU to increase the transparency of government assistance, including the disclosure of (i) the types of assistance, (ii) an entity's accounting for the assistance, and (iii) the effect of the assistance on an entity's financial statements. This update requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy, including (i) information about the nature of the transactions and the related accounting policy used to account for them, (ii) the line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each line item, and (iii) significant terms and conditions of the transactions, including commitments and contingencies.

  The amendments are effective for fiscal years beginning after December 15, 2021. The adoption of this ASU did not have any significant impact on our consolidated financial statements.

B. Accounting periods

The Company prepares its annual consolidated financial statements as of the Saturday nearest December 31. Accordingly, the consolidated balance sheets are presented as of December 31, 2022 and January 1, 2022 and the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity are presented for the years ended December 31, 2022 ("Fiscal 2022"), January 1, 2022 ("Fiscal 2021") and January 2, 2021 ("Fiscal 2020").

C. Basis of consolidation

The consolidated financial statements include the results of operations, cash flows and assets and liabilities of Gates and its majority-owned subsidiaries, and our share of the results of our equity method investees.

We consolidate entities in which we have a controlling interest or when we are considered the primary beneficiary of a variable interest entity. The consolidated financial statements reflect the assets, liabilities, revenues and expenses of consolidated subsidiaries and the non-controlling parties' ownership interest is presented as a non-controlling interest. Intercompany transactions and balances, and any unrealized profits or losses arising from intercompany transactions, are eliminated on consolidation.

D. Foreign currency transactions and translation

Transactions denominated in currencies other than an entity's functional currency (foreign currencies) are translated into the entity's functional currency at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing on the reporting date. Exchange differences arising from changes in exchange rates are recognized in net income for the period. The net foreign currency transaction gain included in operating income from continuing operations during Fiscal 2022 was $5.7 million, compared to a loss of $7.1 million in Fiscal 2021 and a loss of $7.7 million in Fiscal 2020. We also recognized net financing-related foreign currency transaction gains within other expenses (income) of $10.2 million during Fiscal 2022, compared to a loss of $7.6 million in Fiscal 2021 and a gain of $5.3 million in Fiscal 2020.

On consolidation, the results of operations of entities whose functional currency is other than the U.S. dollar are translated into U.S. dollars at the weighted average exchange rate for the period and their assets and liabilities are translated into U.S. dollars at the exchange rate prevailing on the balance sheet date. Currency translation differences are recognized within other comprehensive income ("OCI") as a separate component of accumulated OCI. In the event that a foreign operation is sold, or substantially liquidated, the cumulative currency translation differences that are attributable to the operation are reclassified to net income.

In the statement of cash flows, the cash flows of operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars at the weighted average exchange rate for the period.

E. Net sales

Gates derives its net sales primarily from the sale of 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.

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We apply the five-step model under Topic 606 ("Revenue from Contracts with Customers") to all contracts. The five steps are: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) we satisfy a performance obligation.

In most of our agreements with customers, we consider accepted customer purchase orders, which in some cases are governed by master sales agreements, to represent the contracts with our customers. Revenue from the sale of goods under these contracts is measured at the invoiced amount, net of estimated returns, early settlement discounts and rebates. Taxes collected from customers relating to product sales and remitted to government authorities are excluded from revenues. Where a customer has the right to return goods, future returns are estimated based on historical returns profiles. Settlement discounts that may apply to unpaid invoices are estimated based on the settlement histories of the relevant customers. Our transaction prices often include variable consideration, usually in the form of discounts and rebates that may apply to issued invoices. The reduction in the transaction price for variable consideration requires that we make estimations of the expected total qualifying sales to the relevant customers. These estimates, including an analysis for potential constraint on variable consideration, take into account factors such as the nature of the rebate program, historical information and expectations of customer and consumer behavior. Overall, the transaction price is reduced to reflect our estimate of the consideration that is not probable of significant reversal.

We allocate the transaction price to each distinct performance obligation based on their relative standalone selling price. The product price as specified on the accepted purchase order is considered to be the standalone selling price.

In substantially all of our contracts with customers, our performance obligations are satisfied at a point in time, rather than over a period of time, when control of the product is transferred to the customer. This occurs typically at shipment. In determining whether control has transferred and the customer is consequently able to control the use of the product for their own benefit, we consider if there is a present right to payment, legal title and physical possession has been transferred, whether the risks and rewards of ownership have transferred to the customer, and if acceptance of the asset by the customer is more than perfunctory.

F. Selling, general and administrative expenses

Shipping and handling costs

Costs of outbound shipping and handling are included in SG&A. During Fiscal 2022, we recognized shipping and handling costs of $174.8 million, compared to $170.1 million in Fiscal 2021 and $137.2 million in Fiscal 2020.

Research and development costs

Research and development costs are charged to net income in the period in which they are incurred. Our research and development expense was $69.4 million in Fiscal 2022, compared to $70.7 million in Fiscal 2021 and $67.2 million in Fiscal 2020. These costs related primarily to product development and also to technology to enhance manufacturing processes.

Advertising costs

Advertising costs are expensed as incurred and included in SG&A. During Fiscal 2022, we recognized advertising costs of $16.8 million, compared to $12.0 million in Fiscal 2021 and $6.7 million in Fiscal 2020.

G. Restructuring expenses

Restructuring expenses are incurred in major projects undertaken to rationalize and improve our cost competitiveness. Restructuring expenses incurred during the periods presented are analyzed in Note 5.

Liabilities in respect of termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement are recognized over the future service period when those employees are required to render services to the entity beyond the minimum retention period. If employees are not required to render service until they are terminated or if they will not be retained to render service beyond 60 days or a longer legal notification period, the liability is recognized on the communication date.

Termination benefits that are covered by a contract or an ongoing benefit arrangement are recognized when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. Benefits that are offered for a short period of time in exchange for voluntary termination are recognized when the employees accept the offer.

Restructuring expenses other than termination benefits and lease exit costs are recognized only when the Company has incurred a related liability.

H. Inventories

Inventories are stated at the lower of cost or net realizable value. A valuation adjustment is made to inventory for any excess, obsolete or slow-moving items based on management's review of on-hand inventories compared to historical and estimated future sales and usage profiles. Any consequent write-down of inventory results in a new cost basis for inventory.

Cost represents the expenditure incurred in bringing inventories to their existing location and condition, which may include the cost of raw materials, direct labor costs, other direct costs and related production overheads. Cost is generally determined on a first in, first out ("FIFO") basis, but the cost of certain inventories is determined on a last in, first out ("LIFO") basis. As of December 31, 2022, inventories whose cost was determined on a LIFO basis represented 28.9% of the total carrying amount of inventories compared to 31.2% as of January 1, 2022. Inventories would have been $28.7 million and $9.3 million higher than reported as of December 31, 2022 and January 1, 2022, respectively, had all inventories been valued on a FIFO basis, which approximates current cost.

I. Goodwill

Goodwill arising in a business combination is allocated to the reporting unit that is expected to benefit from the synergies of the acquisition.

Where goodwill is attributable to more than one reporting unit, the goodwill is determined by allocating the purchase consideration in proportion to their respective business enterprise values and comparing the allocated purchase consideration with the fair value of the identifiable assets and liabilities of the reporting unit. Goodwill is not amortized but is tested for impairment on the first day of the fourth quarter or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable and is carried at cost less any recognized impairment. For both reporting units, which are also our reportable segments, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2022, Fiscal 2021 or Fiscal 2020.

To identify a potential impairment of goodwill, the fair value of the reporting unit to which the goodwill is allocated is compared to its carrying amount, including goodwill. We calculate fair values using a weighted blend of income and market approaches. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired. If the fair value is lower than the carrying amount, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the amount of goodwill allocated to that reporting unit.

J. Other intangible assets

Other intangible assets are stated at cost less accumulated amortization and any recognized impairment.

(i) Assets acquired in business combinations

An acquired intangible asset with a finite useful life is amortized on a straight-line basis so as to charge its cost, which represents its fair value at the date of acquisition, to net income over the Company's expectation of its useful life, as follows:

Customer relationships	15 to 17 years
Technology	5 to 7 years

Acquired brands and trade names are considered to have an indefinite useful life and are not amortized but are tested at least annually for impairment and are carried at cost less any recognized impairment.

(ii) Computer software

Computer software that is not integral to an item of property, plant and equipment is recognized separately as an intangible asset. Computer software is amortized on a straight-line basis over its estimated useful life, which ranges from 2 to 6 years.

K. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any recognized impairment losses. Major improvements are capitalized. Expenditures for repairs and maintenance that do not significantly extend the useful life of the asset are expensed as incurred.

Land and assets under construction are not depreciated. Depreciation of property, plant and equipment, other than land and assets under construction, is generally expensed on a straight-line basis over their estimated useful lives. The Company's estimated useful lives of items of property, plant and equipment are generally in the following ranges:

Buildings and improvements	30 to 40 years
Leasehold improvements	Shorter of lease term or useful life
Machinery, equipment and vehicles	2 to 20 years

L. Leases

Gates has a large number of leases covering a wide variety of tangible assets that are used in our operations across the world. The value of our global leases is concentrated in a relatively small number of real estate leases, which accounted for approximately 93% of the lease liability under non-cancellable leases as of December 31, 2022. The remaining leases are predominantly comprised of equipment and vehicle leases.

In determining the impact of renewal options on the lease term, we consider various economic factors, including real estate strategies, the nature, length and underlying terms of the agreement, as well as the uncertainty of the condition of leased equipment at the end of the lease term.

Certain payments under our lease agreements, such as property taxes and utility costs, are excluded from the measurement of our right-of-use assets and lease liabilities and are recognized instead as variable payments in the period in which the obligation for those payments is incurred. A number of our leases, particularly real estate leases, include base rent escalation clauses. The majority of these are based on the change in a local consumer price or similar inflation index. Payments that vary based on an index or rate are included in the measurement of our right-of-use assets and lease liabilities at the rate as of the commencement date with any subsequent changes to those payments being recognized as variable payments in the period in which they occur.

Gates does not have any significant leases containing residual value guarantees, restrictions or covenants. Additionally, as of December 31, 2022, there were no significant new leases that have not yet commenced.

The discount rate used to calculate the present value of the future minimum lease payments is the rate implicit in the lease, when readily available. As most of our leases do not have a readily determinable implicit rate, we discount the future minimum lease payments using an incremental borrowing rate which represents the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We determine this rate at a country or lower level and take into account factors including currency, country risk premium, industry risk and adjustments for collateralized debt. Appropriate yield curves are used to derive different debt tenors to approximate the applicable lease term.

The discount rate is reassessed when there is a remeasurement of the lease liability, which happens predominantly when there is a contract modification and that modification does not result in a separate contract.

We have adopted the following practical expedients:

(i) we will not separate the lease component from the non-lease component for all asset classes. We have therefore not allocated consideration in a contract between lease and non-lease components; and

(ii) we recognize the payments on short-term leases (leases with terms at inception of 12 months or fewer) in net income on a straight-line basis over the lease term. No amount is recognized on the balance sheet with respect to these leases.

M. Financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits available on demand and other short-term, highly liquid investments with maturities on acquisition of 90 days or less. We have cash concentrations in certain large, highly-rated global financial institutions. Management closely monitors the credit quality of the institutions in which it holds deposits.

(ii) Restricted cash

Restricted cash, which is included in the prepaid expenses and other assets line in the consolidated balance sheet, includes cash given as collateral under letters of credit for insurance and regulatory purposes. Cash and cash equivalents for the purposes of the consolidated statement of cash flows includes restricted cash of $3.0 million as of December 31, 2022, compared to $2.7 million and $2.7 million as of January 1, 2022 and January 2, 2021, respectively.

(iii) Trade accounts receivable

Trade accounts receivable represent the amount of sales of goods to customers, net of discounts and rebates, for which payment has not been received, less an allowance for expected credit losses. Our businesses develop their expected loss estimates based either on the aging profile of outstanding receivables or by applying an experience factor (either a percentage of sales or a percentage of open receivables). These methodologies are based primarily on historical trends and experience, but credit controllers also regularly assess individual customer accounts to identify any potential increases or decreases in the level of expected credit loss needed to be applied to each customer based on current circumstances and future expectations.

Before accepting a new customer, we assess their credit quality and establish a credit limit. Credit quality is assessed by using data maintained by reputable credit rating agencies, by checking of references included in credit applications and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorization and are reviewed on a regular basis.

Although Gates has a wide variety of customers from multinational original equipment manufacturers and distributors to small family-owned businesses, the majority of our sales are generated from large companies with low credit risk. Global developments related to the COVID-19 pandemic and its impact on our customers' ability to pay us continue to be closely monitored and taken into account in the determination of our expected credit loss estimates.

Movements in our allowance for expected credit losses during the periods presented are analyzed in Note 22.

During Fiscal 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 generally 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 December 31, 2022, the collection of $108.2 million of our trade accounts receivable had been accelerated under this program, compared to the accelerated collection of $106.9 million as of January 1, 2022. We incurred costs in respect of this program of $4.9 million during Fiscal 2022, which are recorded under other (income) expense, and $1.4 million during Fiscal 2021.

(iv) Debt

Debt is initially measured at its principal amount, net of directly attributable transaction costs, if any, and is subsequently measured at amortized cost using the effective interest rate method.

(v) Accounts payable

Accounts payable represents the amount of invoices received from suppliers for purchases of goods and services and the amount of goods received but not invoiced, for which payment has not been made.

(vi) Derivative financial instruments

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 all derivative financial instruments as either assets or liabilities at fair value on the balance sheet date. The accounting for the change in the fair value is recognized in net income based on the nature of the items being hedged unless the financial instrument has been designated in an effective cash flow or net investment hedging relationship, in which case the change in fair value is recognized in OCI.

(vii) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities that are held at fair value, or for which fair values are presented in these consolidated financial statements, have been categorized into one of three levels to reflect the degree to which observable inputs are used in determining the fair values. Where a change in the determination of the fair value of a financial asset or liability results in a transfer between the levels of the fair value hierarchy, we recognize that transfer at the end of the reporting period.

N. Post-retirement benefits

Post-retirement benefits comprise pension benefits provided to employees and other benefits, mainly healthcare, provided to certain employees in North America.

We account for our post-retirement benefit plans in accordance with Topic 715 "*Compensation – Retirement Benefits*", which is based on the principle that the cost of providing these benefits is recognized in net income over the service periods of the participating employees.

For defined benefit plans, the net obligation or surplus arising from providing the benefits is recognized as a liability or an asset determined by actuarial valuations of each of the plans that are carried out annually by independent qualified actuaries as of the year end balance sheet date. Benefit obligations are measured using the projected unit credit method. Plan assets (if any) are measured at fair value. We recognize the service cost component of our net periodic pension and other post-retirement benefit cost in the lines within operating income to which the relevant employees' other compensation costs are reported. All other components of the net periodic benefit cost (which include the interest cost, the expected return on plan assets, gains or losses on settlements and curtailments, the amortization of prior year service cost or credit and prior year actuarial gains and losses) are included in the other (expenses) income line, outside of operating income from continuing operations.

Actuarial gains and losses represent differences between the expected and actual returns on the plan assets, gains and losses on the plan liabilities and the effect of changes in actuarial assumptions. We use the “corridor approach” whereby, to the extent that cumulative actuarial gains and losses exceed 10% of the greater of the market related value of the plan assets and the projected benefit obligation at the beginning of the fiscal year, they are reclassified from accumulated other comprehensive income to net income over the average remaining service periods of participating employees.

Gains and losses on settlements and curtailments are recognized in net income in the period in which the curtailment or settlement occurs.

O. Share-based compensation

Share-based compensation has historically been provided to certain of our employees under share option, bonus and other share award plans. All share-award plans are equity settled, except for certain awards issued in the form of stock appreciation rights (“SARs”) to employees in China, where local regulations necessitate a cash-settled award. These awards are therefore accounted for as liabilities rather than equity.

We recognize compensation expense based on the fair value of the awards, measured using either the share price on the date of grant, a Black-Scholes option-pricing model or a Monte-Carlo valuation model, depending on the nature of the award. Fair value is determined at the date of grant and reflects market and performance conditions and all non-vesting conditions.

Generally, the compensation expense for each separately vesting portion of the award is recognized on a straight-line basis over the vesting period for that portion of the award. Compensation expense is recognized for awards containing market conditions regardless of whether or not the market condition is met, whereas compensation expense for awards containing performance conditions is recognized only to the extent that it is probable that those performance conditions will be met. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or performance conditions.

For equity awards, fair value is not subsequently remeasured unless the conditions on which the award was granted are modified. An amount corresponding to the compensation expense for equity awards is recognized in equity as additional paid in capital.

For liability awards, the fair value is remeasured each period and the change in fair value is recognized in net income for the period with a corresponding change in the outstanding liability.

P. Income taxes

Current tax is the amount of tax payable or receivable in respect of the taxable income for the period. Taxable income differs from financial reporting income because it excludes items of income or expense recognized for financial reporting purposes that are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted at the balance sheet date.

Management assesses unrecognized tax benefits based upon an evaluation of the facts, circumstances and information available at the balance sheet date. Provision is made for unrecognized tax benefits to the extent that the amounts previously taken or expected to be taken in tax returns exceeds the tax benefits that are recognized in the consolidated financial statements in respect of the tax positions. A tax benefit is recognized in the consolidated financial statements only if management considers that it is more likely than not that the tax position will be sustained on examination by the relevant tax authority solely on the technical merits of the position and is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement assuming that the tax authority has full knowledge of all relevant information. Provisions for unrecognized tax benefits are reviewed regularly and are adjusted to reflect events such as the expiration of limitation periods for assessing tax, guidance given by the tax authorities and court decisions.

Interest and penalties relating to unrecognized tax benefits are accrued in accordance with the applicable tax legislation on any excess of the tax benefit claimed or expected to be claimed in a tax return and the tax benefit recognized in the consolidated financial statements. Interest and penalties are recognized as a component of income tax benefit (expense) in the consolidated statement of operations and accrued interest and penalties are included under the related taxes payable line in the consolidated balance sheet.

Deferred tax assets and liabilities are recognized based on the expected future tax consequences of the difference between the financial statement carrying amount and the respective tax basis. Deferred taxes are measured on the enacted rates expected to apply to taxable income at the time the difference is anticipated to reverse. Deferred tax assets are reduced through the establishment of a valuation allowance if it is more likely than not that the deferred tax asset will not be realized taking into account the timing and amount of the reversal of taxable temporary differences, expected future taxable income and tax planning strategies.

Deferred tax is provided on taxable temporary differences arising on investments in foreign subsidiaries, except where we intend, and are able, to reinvest such amounts on a permanent basis or to remit such amounts in a tax-free manner.

Q. Use of estimates

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 the timing and amount of revenue recognition, 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.

Due to the inherent uncertainty involved in making assumptions and estimates, events and changes in circumstances arising after December 31, 2022, including those resulting from the continuing impacts of the COVID-19 pandemic, may result in actual outcomes that differ from those contemplated by our assumptions and estimates.

3. Recent accounting pronouncements not yet adopted

None.

4. Segment information

A. Background

The segment information provided in these 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 principally 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.

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Power Transmission	$ 2,173.7	$ 2,216.3	$ 1,800.2
Fluid Power	1,380.5	1,258.1	992.8
Net sales	**$ 3,554.2**	**$ 3,474.4**	**$ 2,793.0**

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:

	For the year ended					
	December 31, 2022		January 1, 2022		January 2, 2021	
(dollars in millions)	Power Transmission	Fluid Power	Power Transmission	Fluid Power	Power Transmission	Fluid Power
U.S.	$ 636.8	$ 733.3	$ 621.8	$ 615.5	$ 538.3	$ 513.9
North America, excluding U.S.	205.6	208.8	179.8	193.8	147.3	146.9
United Kingdom ("U.K.")	45.1	68.9	50.2	58.3	44.3	28.2
EMEA[(1)], excluding U.K.	598.3	200.0	640.6	198.8	487.4	151.0
East Asia and India	295.5	75.4	308.6	86.3	251.8	60.5
Greater China	300.3	44.4	344.2	67.8	279.5	66.9
South America	92.1	49.7	71.1	37.6	51.6	25.4
Net sales	**$ 2,173.7**	**$ 1,380.5**	**$ 2,216.3**	**$ 1,258.1**	**$ 1,800.2**	**$ 992.8**

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

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

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Developed	$ 2,281.4	$ 2,214.6	$ 1,787.8
Emerging	1,272.8	1,259.8	1,005.2
Net sales	**$ 3,554.2**	**$ 3,474.4**	**$ 2,793.0**

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 for the period before net interest and other (income) expenses, 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 equity and debt transactions;
- impairments of assets;
- restructuring expenses, including severance-related expenses; and

- fees paid to our private equity sponsor for monitoring, advisory and consulting services.

Adjusted EBITDA by segment was as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Power Transmission	$ 404.0	$ 500.6	$ 353.0
Fluid Power	276.6	235.2	153.6
Adjusted EBITDA	**$ 680.6**	**$ 735.8**	**$ 506.6**

Reconciliation of net income from continuing operations to Adjusted EBITDA:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Net income from continuing operations	$ 242.9	$ 331.3	$ 90.3
Income tax expense (benefit)	14.9	18.4	(19.3)
Income from continuing operations before taxes	**257.8**	**349.7**	**71.0**
Interest expense	139.4	133.5	154.3
Other (income) expense	(13.2)	0.9	(14.2)
Operating income from continuing operations	**384.0**	**484.1**	**211.1**
Depreciation and amortization	217.2	222.6	218.6
Transaction-related expenses (1)	2.1	3.7	5.2
Asset impairments	1.1	0.6	5.2
Restructuring expenses	9.5	7.4	37.3
Share-based compensation expense	44.3	24.6	19.8
Sponsor fees (included in other operating expense)	—	—	1.9
Inventory impairments and adjustments (2) (included in cost of sales)	20.9	1.4	1.4
Severance expenses (included in cost of sales)	0.8	—	1.0
Severance expenses (included in SG&A)	0.5	0.7	8.0
Other items not directly related to current operations	0.2	(9.3)	(2.9)
Adjusted EBITDA	**$ 680.6**	**$ 735.8**	**$ 506.6**

(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 $19.4 million reversal of the adjustment to remeasure certain inventories on a LIFO basis. The recent inflationary environment has caused LIFO values to drop below FIFO values because LIFO measurement results in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

E. Selected geographic information

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Property, plant and equipment, net by geographic location		
U.S.	$ 166.5	$ 172.9
Rest of North America	125.8	127.1
U.K.	28.6	32.8
Rest of EMEA	160.7	151.3
East Asia and India	38.9	45.7
Greater China	100.1	124.8
South America	16.9	15.7
	$ 637.5	**$ 670.3**

F. Information about major customers

Gates has a significant concentration of sales in the U.S., which accounted for 39.6% of Gates' net sales by destination from continuing operations during Fiscal 2022, compared to 36.3% during Fiscal 2021 and 39.0% during Fiscal 2020. During Fiscal 2022, Fiscal 2021 and Fiscal 2020, no single customer accounted for more than 10% of Gates' net sales. Two customers of our North America businesses accounted for 15.3% and 8.4%, respectively, of our total trade accounts receivable balance as of December 31, 2022, compared to 13.9% and 10.0%, respectively, as of January 1, 2022. These concentrations are due to the extended payment terms common in the industry in which these businesses operate.

5. 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 consolidated statements as set forth below. Expenses incurred in relation to certain of these actions qualify as restructuring expenses under U.S. GAAP.

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Restructuring expenses:			
—Severance expenses	$ 4.9	$ 0.7	$ 24.0
—Non-severance labor and benefit expenses	0.5	2.5	3.8
—Consulting expenses	1.8	2.2	2.1
—Other net restructuring expenses	2.3	2.0	7.4
	9.5	**7.4**	**37.3**
Restructuring expenses in asset impairments:			
—Impairment of fixed and other assets	1.1	0.6	5.2
Restructuring expenses in cost of sales:			
—Impairment of inventory	1.5	1.4	1.4
Total restructuring expenses	**$ 12.1**	**$ 9.4**	**$ 43.9**
Expenses related to other strategic initiatives:			
—Severance expenses included in cost of sales	$ 0.8	$ —	$ 1.0
—Severance expenses included in SG&A	0.5	0.7	8.0
Total expenses related to other strategic initiatives	**$ 1.3**	**$ 0.7**	**$ 9.0**

Restructuring and other strategic initiatives during Fiscal 2022 related primarily to our ongoing European reorganization, including $2.5 million of labor, severance, and other costs related to relocating certain production activities within Europe during Fiscal 2022, in addition to severance costs of $2.4 million during the year related to relocation and integration of certain support functions into our regional shared service center. We also incurred $3.5 million of costs during Fiscal 2022 in relation to the suspension of our operations in Russia, which included severance costs of $0.7 million, an impairment of inventories of $1.1 million (recognized in cost of sales), and an impairment of fixed and other assets of $1.1 million (recognized in asset impairments). Other restructuring costs incurred during the period related to facility relocations and other legal and consulting costs.

Restructuring and other strategic initiative costs, including asset impairments, of $9.4 million were recognized during Fiscal 2021, including $3.4 million of primarily severance and other labor-related expenses related to our European reorganization involving office and distribution center closures or downsizings and the implementation of a regional shared service center, and $3.7 million of additional costs related to the closure in 2020 of a manufacturing facility in Korea, including impairment of fixed assets of $0.6 million. Also during Fiscal 2021, we incurred $1.4 million of inventory impairments (recognized in cost of sales), predominantly in North America as part of a strategic product line shift, and we recognized $1.0 million of expenses related to the consolidation of certain of our Middle East businesses. Partially offsetting these costs were gains of $3.1 million on the disposal of buildings in Korea and France that were no longer needed following the completion of certain restructuring initiatives.

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:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Power Transmission	$ 5.8	$ 5.6	$ 32.6
Fluid Power	6.3	3.8	11.3
Continuing operations	**$ 12.1**	**$ 9.4**	**$ 43.9**

The following summarizes the reserve for restructuring expenses for the year ended December 31, 2022 and January 1, 2022, respectively:

	For the year ended	
(dollars in millions)	December 31, 2022	January 1, 2022
Balance as of the beginning of the period	$ 6.5	$ 17.9
Utilized during the period	(8.1)	(18.0)
Charge for the period	9.6	8.0
Released during the period	(0.1)	(0.6)
Foreign currency translation	(0.4)	(0.8)
Balance as of the end of the period	**$ 7.5**	**$ 6.5**

Restructuring reserves, which are expected to be utilized during 2023, are included in the consolidated balance sheet within the accrued expenses and other current liabilities line.

6. Income taxes

Provision for income taxes

Gates Industrial Corporation plc is domiciled in the United Kingdom. Income from continuing operations before income taxes is summarized below based on the geographic location of the operation to which such earnings and income taxes are attributable.

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
U.K.	$ (11.0)	$ (32.9)	$ (82.7)
U.S.	17.1	63.5	(105.3)
Other foreign	251.7	319.1	259.0
Income from continuing operations before income taxes	**$ 257.8**	**$ 349.7**	**$ 71.0**

Income tax expense (benefit) on income from continuing operations analyzed by tax jurisdiction is as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Current tax			
U.K.	$ (1.7)	$ 4.2	$ (0.1)
U.S.	42.0	12.9	5.4
Other foreign	54.3	95.6	23.1
Total current tax expense	**$ 94.6**	**$ 112.7**	**$ 28.4**
Deferred income tax			
U.K.	$ (2.5)	$ (18.1)	$ (19.2)
U.S.	(54.5)	(61.7)	2.0
Other foreign	(22.7)	(14.5)	(30.5)
Total deferred income tax benefit	**(79.7)**	**(94.3)**	**(47.7)**
Income tax expense (benefit)	**$ 14.9**	**$ 18.4**	**$ (19.3)**

Reconciliation of the applicable statutory income tax rate to the reported effective income tax rate:

	For the year ended		
	December 31, 2022	January 1, 2022	January 2, 2021
U.K. corporation tax rate	19.0%	19.0%	19.0%
Effect of:			
—State tax provision, net of Federal benefit	(0.2%)	1.4%	(0.9%)
—Provision for unrecognized income tax benefits	(9.8%)	(0.4%)	(30.8%)
—Corporate owned life insurance	(3.1%)	(2.4%)	(11.3%)
—Tax on international operations[1]	20.6%	(31.2%)	(4.4%)
—Manufacturing incentives[2]	(3.9%)	(1.8%)	(4.4%)
—Change in valuation allowance[3]	(20.6%)	36.3%	(2.8%)
—Deferred income tax rate changes	(0.1%)	(17.8%)	(3.8%)
—Currency exchange rate movements	1.9%	0.8%	8.2%
—Other permanent differences	2.0%	1.4%	4.0%
Reported effective income tax rate	**5.8%**	**5.3%**	**(27.2%)**

(1) "Tax on international operations" includes U.S. tax on foreign earnings, unremitted earnings of foreign subsidiaries, effects of global funding structures, and effects of differences between statutory and foreign tax rates. Fiscal 2021 includes $129.9 million benefit for additional net deferred tax assets, primarily finite-lived net operating losses for 2019 in Luxembourg. Fiscal 2020 include the effects of tax law enactments other than deferred income tax rate changes and the impact of nondeductible transaction-related expenses.

(2) "Manufacturing incentives" for Fiscal 2022 totaled $10.0 million, primarily related to $6.7 million of incentives generated in Türkiye and the U.S. during the year.

(3) "Change in valuation allowance" is comprised primarily of:

	For the year ended		
Expense (benefit)	December 31, 2022	January 1, 2022	January 2, 2021
Luxembourg finite-lived net operating losses	$ —	$ 126.8	$ —
Luxembourg indefinite-lived net operating losses	$ (14.8)	$ 3.1	$ —
U.S. foreign tax credits	$ (39.9)	$ (53.4)	$ 5.4
Disallowed interest carryforwards	$ —	$ —	$ (11.7)
Rate change	$ —	$ 48.3	$ —

Significant Events

CARES Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted and signed into law in the U.S. in response to the COVID-19 pandemic. One of the provisions of this law is an increase to the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income for the 2019 and 2020 tax years. This modification significantly increased the current deductible interest expense of the Company for both years, which resulted in a cash benefit while increasing our effective tax rate through requirements to allocate and apportion interest expense for certain other tax purposes, including in determining our global intangible low-taxed income inclusion, deduction for foreign derived intangible income, and the utilization of foreign tax credits.

Deferred income tax assets (liabilities)

Deferred income tax assets (liabilities) recognized by the Company were as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Deferred income tax assets:		
Accounts receivable	$ 4.6	$ 3.8
Lease liabilities	39.2	37.2
Accrued expenses	45.3	36.2
Post-retirement benefit obligations	14.0	4.9
Compensation	18.8	19.9
Net operating losses	1,576.0	1,629.4
Capital losses	182.1	200.8
Credits	91.9	117.1
Interest	148.3	140.2
Other items	—	4.4
	$ 2,120.2	**$ 2,193.9**
Valuation allowances	(1,273.5)	(1,349.1)
Total deferred income tax assets	**$ 846.7**	**$ 844.8**
Deferred income tax liabilities:		
Inventories	$ (11.2)	$ (16.6)
Property, plant and equipment	(34.2)	(37.8)
Lease right-of-use assets	(33.3)	(31.3)
Intangible assets	(340.9)	(382.5)
Undistributed earnings	(18.6)	(21.0)
Other items	(0.2)	—
Total deferred income tax liabilities	**$ (438.4)**	**$ (489.2)**
Net deferred income tax assets	**$ 408.3**	**$ 355.6**

As of December 31, 2022, the Company had the following loss and credit carryforward amounts:

- Gates had U.S. federal, U.K. and foreign operating tax losses amounting to $6,299.9 million and U.S. state operating tax losses amounting to $114.3 million. Operating losses of $3,128.4 million can be carried forward indefinitely and $3,285.8 million have expiration dates between 2023 and 2042. We recognized a related deferred income tax asset of $566.6 million after valuation allowance of $1,009.4 million;
- Gates had U.S. federal and U.K. capital tax losses amounting to $730.0 million, of which $717.9 million can be carried forward indefinitely and $12.1 million expire in 2026. We recognized no related deferred income tax asset after valuation allowance of $182.1 million;
- Gates had U.S. federal foreign tax credits amounting to $89.4 million, which expire between 2023 and 2027. We recognized a related deferred income tax asset of $34.6 million after valuation allowance of $54.8 million; and
- Gates had U.S. federal, Luxembourg, Belgium and U.K. interest expense deductions which can be carried forward amounting to $609.1 million. Interest expense carried forward can be carried forward indefinitely. We recognized a related deferred tax asset of $122.0 million after valuation allowance of $26.3 million.

As of December 31, 2022, income and withholding taxes in the various tax jurisdictions in which Gates operates have not been provided on approximately $1,660.4 million of taxable temporary differences related to the investments in the Company's subsidiaries. These temporary differences represent the estimated excess of the financial reporting over the tax basis in our investments in those subsidiaries, which are primarily the result of purchase accounting adjustments. These temporary differences are not expected to reverse in the foreseeable future but could become subject to income and withholding taxes in the various tax jurisdictions in which Gates operates if they were to reverse. The amount of unrecognized deferred income tax liability on these taxable temporary differences has not been determined because the hypothetical calculation is not practicable due to the uncertainty as to how they may reverse. However, Gates has recognized a deferred income tax liability of $18.6 million on taxable temporary differences related to undistributed earnings of the Company's subsidiaries.

Recoverability of Deferred Income 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 impact materially our financial statements.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in Fiscal 2022 that it was more likely than not that deferred income tax assets in the U.S. related to foreign tax credits totaling $15.3 million are realizable as a result of changes in estimates of taxable profits against which these credits can be utilized. In Fiscal 2021, we determined that it was more likely than not that deferred income tax assets in the U.S. related to foreign tax credits totaling $53.4 million are realizable as a result of changes in estimates of taxable profits against which these credits can be utilized. In Fiscal 2020, the deferred tax assets above included $26.0 million of assets which have no expiration in these jurisdictions. As a result of changes in estimates of future taxable profits in the third quarter of Fiscal 2020, due primarily to anticipated changes to the composition of our intercompany financing arrangements related to proposed international tax law changes, our judgement changed regarding valuation allowances on these deferred tax assets.

Unrecognized income tax benefits

The following is a reconciliation of the gross beginning and ending amount of unrecognized income tax benefits, excluding interest and penalties:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
At the beginning of the period	$ 104.6	$ 121.6	$ 147.3
Increases for tax positions related to the current period	6.5	6.7	6.9
Increases for tax positions related to prior periods	0.4	0.7	0.5
Decreases for tax positions related to prior periods	—	(12.1)	(18.9)
Decreases related to settlements	(2.8)	—	(14.0)
Decreases due to lapsed statute of limitations	(27.6)	(7.2)	(5.8)
Foreign currency translation	(5.1)	(5.1)	5.6
At the end of the period	**$ 76.0**	**$ 104.6**	**$ 121.6**

Unrecognized income tax benefits represent the difference between the income tax benefits that we are able to recognize for financial reporting purposes and the income tax benefits that we have recognized or expect to recognize in filed tax returns. Such amounts represent a reasonable provision for income taxes ultimately expected to be paid and may need to be adjusted over time as more information becomes known.

If all unrecognized income tax benefits were recognized, the net impact on the provision for income taxes which would impact the annual effective tax rate would be $60.9 million, including all competent authority offsets.

As of December 31, 2022, January 1, 2022, and January 2, 2021, Gates had accrued $13.7 million, $14.0 million, and $12.3 million, respectively, for the payment of worldwide interest and penalties on unrecognized income tax benefits, which are not included in the table above. Gates recognizes interest and penalties relating to unrecognized income tax benefits in the provision for income tax expense.

The primary driver of the reduction in unrecognized income tax benefits during Fiscal 2022 relates to a change in underlying facts and lapses in statute of limitations. We believe that it is reasonably possible that a decrease of up to $11.5 million in unrecognized income tax benefits will occur in the next 12 months as a result of the expiration of the statutes of limitations in multiple jurisdictions.

As of December 31, 2022, Gates remains subject to examination in the US for tax years 2016 to 2021 and in other major jurisdictions for tax years 2008 to 2021.

7. 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:

(dollars in millions, except share numbers and per share amounts)	For the year ended December 31, 2022	For the year ended January 1, 2022	For the year ended January 2, 2021
Net income attributable to shareholders	$ 220.8	$ 297.1	$ 79.4
Weighted average number of shares outstanding	284,063,083	291,623,523	290,681,615
Dilutive effect of share-based awards	3,523,127	5,670,552	1,434,349
Diluted weighted average number of shares outstanding	**287,586,210**	**297,294,075**	**292,115,964**
Number of anti-dilutive shares excluded from diluted earnings per share calculation	7,538,260	3,981,424	5,257,654
Basic earnings per share	$ 0.78	$ 1.02	$ 0.27
Diluted earnings per share	$ 0.77	$ 1.00	$ 0.27

8. Inventories

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Raw materials and supplies	$ 195.9	$ 199.6
Work in progress	42.3	43.4
Finished goods	418.0	439.6
Total inventories	**$ 656.2**	**$ 682.6**

9. Property, plant and equipment

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Cost		
Land and buildings	$ 321.4	$ 329.2
Machinery, equipment and vehicles	884.6	873.3
Assets under construction	100.9	81.0
	1,306.9	**1,283.5**
Less: Accumulated depreciation and impairment	(669.4)	(613.2)
Total	**$ 637.5**	**$ 670.3**

During Fiscal 2022, the depreciation expense in relation to the above assets was $88.8 million, compared to $90.0 million during Fiscal 2021 and $89.3 million during Fiscal 2020.

During Fiscal 2022, impairments of property, plant and equipment of $0.2 million were recognized, compared to $0.6 million in Fiscal 2021, and $5.2 million in Fiscal 2020.

Property, plant and equipment includes assets held under finance leases with a carrying amount of $3.5 million as of December 31, 2022, compared to $4.1 million as of January 1, 2022.

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

10. Goodwill

(dollars in millions)	Power Transmission	Fluid Power	Total
Cost and carrying amount			
As of January 2, 2021	$ 1,434.4	$ 685.8	**$ 2,120.2**
Foreign currency translation	(46.3)	(10.9)	**(57.2)**
As of January 1, 2022	**1,388.1**	**674.9**	**2,063.0**
Foreign currency translation	(72.9)	(9.0)	**(81.9)**
As of December 31, 2022	**$ 1,315.2**	**$ 665.9**	**$ 1,981.1**

11. Intangible assets

	As of December 31, 2022			As of January 1, 2022		
(dollars in millions)	Cost	Accumulated amortization and impairment	Net	Cost	Accumulated amortization and impairment	Net
Finite-lived:						
—Customer relationships	$ 1,973.7	$ (993.2)	**$ 980.5**	$ 2,031.7	$ (901.6)	**$ 1,130.1**
—Technology	90.4	(89.6)	**0.8**	90.9	(89.4)	**1.5**
—Capitalized software	105.4	(65.7)	**39.7**	97.8	(56.6)	**41.2**
	2,169.5	**(1,148.5)**	**1,021.0**	**2,220.4**	**(1,047.6)**	**1,172.8**
Indefinite-lived:						
—Brands and trade names	513.4	(44.0)	**469.4**	513.4	(44.0)	**469.4**
Total intangible assets	**$ 2,682.9**	**$ (1,192.5)**	**$ 1,490.4**	**$ 2,733.8**	**$ (1,091.6)**	**$ 1,642.2**

During Fiscal 2022, the amortization expense recognized in respect of intangible assets was $128.4 million, compared to $132.6 million for Fiscal 2021 and $129.3 million for Fiscal 2020. In addition, movements in foreign currency exchange rates resulted in a decrease in the net carrying value of total intangible assets of $32.9 million in Fiscal 2022, compared to a decrease of $24.3 million in Fiscal 2021.

The amortization expense for the next five years is estimated to be as follows:

(dollars in millions)	Total
Fiscal year:	
—2023	$ 128.7
—2024	$ 127.8
—2025	$ 122.0
—2026	$ 121.1
—2027	$ 120.5

12. Leases

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Lease expenses			
Operating lease expenses	$ 30.5	$ 31.5	$ 29.9
Finance lease expenses:			
—Finance lease amortization expenses	1.2	1.1	0.9
—Interest on lease liabilities	0.1	0.1	0.1
Short-term lease expenses	7.2	6.7	5.8
Variable lease expenses	6.0	7.9	7.0
Total lease expenses	**$ 45.0**	**$ 47.3**	**$ 43.7**
Other information			
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 34.9	$ 29.9	$ 17.7
Assets obtained in exchange for new finance lease liabilities	$ 0.8	$ 1.5	$ 2.0
Gain on sale and leaseback transactions, net	$ —	$ (9.3)	$ —
Cash paid for amounts included in the measurement of lease liabilities:			
—Operating cash flows from finance leases	$ 0.1	$ 0.1	$ —
—Operating cash flows from operating leases	27.6	30.1	30.3
—Financing cash flows from finance leases	1.3	1.2	1.0
	$ 29.0	**$ 31.4**	**$ 31.3**
Weighted-average remaining lease term — finance leases	2.9 years	4.0 years	5.3 years
Weighted-average remaining lease term — operating leases	8.5 years	9.0 years	9.4 years
Weighted-average discount rate — finance leases	3.2 %	2.5 %	3.0 %
Weighted-average discount rate — operating leases	5.4 %	5.1 %	5.5 %

Maturity analysis of liabilities

(dollars in millions)	Operating leases	Finance leases
Next 12 months	$ 29.2	$ 1.1
Year 2	24.7	0.7
Year 3	22.6	0.5
Year 4	17.6	0.2
Year 5	15.7	—
Year 6 and beyond	68.6	—
Total lease payments	**178.4**	**2.5**
Interest	(34.1)	(0.1)
Total present value of lease liabilities	**$ 144.3**	**$ 2.4**

Balance sheet presentation of leases as of December 31, 2022 and January 1, 2022

	As of December 31, 2022		As of January 1, 2022	
(dollars in millions)	Operating leases	Finance leases	Operating leases	Finance leases
Right-of-use assets	**$ 132.2**	**$ 3.5**	**$ 124.2**	**$ 4.1**
Short-term lease liabilities (included in "Accrued expenses and other current liabilities")	$ 24.0	$ 0.8	$ 20.9	$ 1.1
Long-term lease liabilities	120.3	1.6	114.2	2.2
Total lease liabilities	**$ 144.3**	**$ 2.4**	**$ 135.1**	**$ 3.3**

Right-of-use assets arising under finance leases are presented in the property, plant and equipment, net line item in the consolidated balance sheet. The amortization of right-of-use operating assets during Fiscal 2022 was $22.9 million, compared to $23.7 million and $22.8 million during Fiscal 2021 and Fiscal 2020, respectively. This is included in the change in prepaid expenses and other assets line in the consolidated statement of cash flows.

13. 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 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 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:

	As of December 31, 2022					As of January 1, 2022				
(dollars in millions)	Prepaid expenses and other assets	Other non-current assets	Accrued expenses and other current liabilities	Other non-current liabilities	Net	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	$ 9.3	$ —	$ —	$ (45.2)	**$ (35.9)**	$ —	$ —	$ (19.8)	$ —	**$ (19.8)**
—Interest rate caps	—	—	—	—	**—**	—	—	(1.3)	(0.5)	**(1.8)**
—Interest rate swaps	33.3	32.7	(10.7)	(22.1)	**33.2**	—	7.7	(12.9)	(26.9)	**(32.1)**
Derivatives not designated as hedging instruments:										
—Currency forward contracts	2.2	—	(1.4)	—	**0.8**	2.9	—	(0.6)	—	**2.3**
	$ 44.8	**$ 32.7**	**$ (12.1)**	**$ (67.3)**	**$ (1.9)**	**$ 2.9**	**$ 7.7**	**$ (34.6)**	**$ (27.4)**	**$ (51.4)**

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 operations. As of December 31, 2022 and January 1, 2022, the notional principal amount of these contracts was €756.1 million and €254.5 million, respectively.

In addition, as of January 1, 2022, we had designated €147.0 million of our Euro-denominated debt as a net investment hedge of certain of our European operations. We subsequently reduced the designated amount to €25.0 million during the second quarter of 2022. On November 16, 2022, we extinguished our Euro-denominated term loan and replaced with new Dollar-denominated term loans, and as a result, the net investment hedging designated on our Euro-denominated debt no longer exists as of December 31, 2022.

Concurrent with the refinancing transactions, we executed additional cross currency swaps that have been designated as net investment hedges of certain of our European operations, with the notional principal amount of €501.6 million and contract term from November 16, 2022 to November 16, 2027. During March 2022, we extended the term of our existing cross currency swaps with notional amount of €254.5 million that originally matured in March 2022, to now mature on March 31, 2027.

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

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Net fair value (losses) gains recognized in OCI in relation to:			
—Euro-denominated debt	$ 10.6	$ 12.4	$ (15.5)
—Designated cross currency swaps	(16.3)	21.4	(26.3)
Total net fair value (losses) gains	**$ (5.7)**	**$ 33.8**	**$ (41.8)**

During Fiscal 2022, a net gain of $5.8 million 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 $1.8 million and $3.7 million during Fiscal 2021 and Fiscal 2020, respectively.

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. In November 2022, we executed additional pay-fixed, receive-floating interest rate swaps to hedge the cash flow risk of interest rate on our new U.S. Dollar debt, as further discussed in Note 15. These additional interest rates swaps have a notional amount of $385.0 million, and mature on November 16, 2027. These instruments are all designated as cash flow hedges. As of December 31, 2022 and January 1, 2022, we held pay-fixed, receive-floating interest rate swaps with an aggregate notional amount of $1,255.0 million and $870.0 million, respectively. The existing interest rate swaps with notional amount of $870.0 million run from June 30, 2020 through June 30, 2025, while the new interest rate swaps of $385.0 million notional amount have the contract term from November 16, 2022 to November 16, 2027.

Our interest rate caps involve the receipt of variable rate payments from a counterparty if interest rates rise above the strike rate on the contract in exchange for a premium. As of January 1, 2022, the notional amount of our interest rate caps outstanding was €425.0 million, covering the period from July 1, 2019 to June 30, 2023. During August 2022, we early terminated our interest rate caps.

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

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Movement recognized in OCI in relation to:			
—Fair value gain (loss) on cash flow hedges	$ 61.7	$ 11.7	$ (29.1)
—Amortization to net income of prior period fair value losses	17.9	17.9	9.1
—Reclassification from OCI to net income	(4.0)	3.7	3.6
Total movement	**$ 75.6**	**$ 33.3**	**$ (16.4)**

As of December 31, 2022, we expect to reclassify an estimated $24.4 million of losses in OCI to earnings within the next twelve months associated with cash flow hedges along with the earnings effects of the related forecasted transactions.

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 December 31, 2022 and January 1, 2022, there were no outstanding currency swaps.

As of December 31, 2022, the notional amount of outstanding currency forward contracts that are used to manage operational foreign exchange exposures was $150.5 million, compared to $171.9 million as of January 1, 2022.

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

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Fair value gains (losses) recognized in relation to:			
—Currency forward contracts recognized in SG&A	$ 6.3	$ 5.1	$ (1.9)
—Currency swaps recognized in other expenses	—	—	0.4
Total	**$ 6.3**	**$ 5.1**	**$ (1.5)**

14. 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:

	As of December 31, 2022		As of January 1, 2022	
(dollars in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Current	$ 36.6	$ 36.2	$ 38.1	$ 37.9
Non-current	2,426.4	2,408.4	2,526.5	2,553.0
	$ 2,463.0	**$ 2,444.6**	**$ 2,564.6**	**$ 2,590.9**

Debt is comprised principally of borrowings under the secured credit facilities and the unsecured senior notes. Loans under the secured credit facilities pay interest at floating rates, subject to a 0.75% LIBOR floor and a 0.50% Term SOFR floor on the two dollar term loans as further described in Note 15. 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 December 31, 2022			
Derivative assets	$ —	$ 77.5	**$ 77.5**
Derivative liabilities	$ —	$ (79.4)	**$ (79.4)**
As of January 1, 2022			
Equity investments	$ 0.6	$ —	**$ 0.6**
Derivative assets	$ —	$ 10.6	**$ 10.6**
Derivative liabilities	$ —	$ (62.0)	**$ (62.0)**

Equity investments represent equity securities that are traded in an active market and therefore are measured using quoted prices in an active market. Derivative assets and liabilities included in Level 2 represent foreign currency exchange forward and swap contracts, and interest rate derivative contracts.

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. During Fiscal 2022, an impairment of fixed and other assets of $1.1 million was recognized in relation to the suspension of our operations in Russia. No significant impairment was recognized during Fiscal 2021. During Fiscal 2020, impairments of property, plant and equipment of $5.2 million were recognized in relation to restructuring and other strategic initiatives, primarily the closure of our manufacturing facility in Korea.

15. Debt

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Secured debt:		
—Dollar Term Loans	$ 1,923.4	$ 1,363.7
—Euro Term Loan	—	647.5
Unsecured debt:		
—6.25% Dollar Senior Notes due 2026	568.0	568.0
Total principal of debt	**2,491.4**	**2,579.2**
Deferred issuance costs	(45.5)	(31.5)
Accrued interest	17.1	16.9
Total carrying value of debt	**2,463.0**	**2,564.6**
Debt, current portion	36.6	38.1
Debt, less current portion	**$ 2,426.4**	**$ 2,526.5**

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 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.

The principal payments due under our financing agreements over the next five years and thereafter are as follows:

(dollars in millions)	Total
Fiscal year:	
—2023	$ 19.5
—2024	19.5
—2025	19.5
—2026	587.5
—2027	1,300.5
Thereafter	544.9
	$ 2,491.4

Debt issuances and redemptions

During March 2022, we drew $70.0 million under our asset-backed revolving credit facility to partially fund the purchase of shares under our share repurchase program, as discussed further in Note 19 below. As of December 31, 2022, we paid down the borrowings on the asset-backed revolver and have no remaining outstanding balance.

On November 16, 2022, we issued a new tranche of $575.0 million of dollar denominated term loans (the "New Dollar Term Loans") pursuant to an amendment to the credit agreement governing our term loan facilities, using the proceeds to extinguish the entire outstanding principal balance of €563.8 million under our Euro Term Loan facility (the "Euro Term Loan") plus €1.0 million accrued interest. The New Dollar Term Loans have substantially similar terms as the Existing Dollar Term Loans (as defined herein), bearing interest at the borrower's option at either Term SOFR (as defined in the credit agreement) plus 3.50% margin per annum, subject to a 0.50% per annum Term SOFR floor, or at the base rate plus 2.50% per annum, subject to a 1.50% per annum base rate floor. The New Dollar Term Loans require scheduled quarterly amortization payments of 1% per annum based on the initial aggregate principal amount and mature in November 2029. The New Dollar Term Loans require a prepayment premium in connection with certain repricing transactions occurring within six months following the closing of the amendment. Issuance discount and costs totaling approximately $23.2 million related to the issuance of the New Dollar Term Loans have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method. The repayment of Euro Term Loan resulted in the accelerated recognition of $2.2 million deferred financing costs (recognized in interest expense).

During June 2021, we made a principal debt repayment of €58.7 million ($69.5 million) against our Euro Term Loan facility. As a result of this repayment, we accelerated the recognition of $0.4 million of deferred issuance costs (recognized in interest expense).

On December 31, 2020, we made a principal debt repayment of $300.0 million against our Dollar Term Loan facility. As a result of this repayment, we accelerated the recognition of $3.7 million of deferred financing costs (recognized in interest expense).

Dollar and Euro Term Loans

Our secured credit facilities consist of two loans (collectively, the "Dollar Term Loans"), one of which was drawn on July 3, 2014 (the "Existing Dollar Term Loans"), and the New Dollar Term Loans drawn on November 16, 2022 as described above. These term loan facilities bear interest at a floating rate, which for U.S. dollar debt can be either a base rate as defined in the credit agreement plus an applicable margin, or at our option, LIBOR or Term SOFR (as applicable) plus an applicable margin. The New Dollar Term Loans mature on November 16, 2029.

On February 24, 2021, we made amendments to the Existing Dollar Term Loans' credit agreement, including extending the maturity date of the Existing Dollar Term Loans, from March 31, 2024 to March 31, 2027, reducing the floor applicable to the Existing Dollar Term Loans from 1.00% to 0.75% and modifying the applicable interest rate margin for the Existing Dollar Term Loans to include a 0.25% reduction if our consolidated total net leverage ratio (as defined in the credit agreement) is less than or equal to 3.75 times. In connection with these amendments, we paid accrued interest up to the date of the amendments of $3.7 million, in addition to fees of $8.6 million, of which $6.9 million qualified for deferral and will be amortized to interest expense over the new remaining term of the loan using the effective interest method.

The Existing Dollar Term Loans' interest rate is currently LIBOR, subject to a floor of 0.75%, plus a margin of 2.50%, and as of December 31, 2022, borrowings under this facility bore interest at a rate of 6.88% per annum. This margin reflects the 0.25% reduction described above, as the consolidated total net leverage ratio (as defined in the credit agreement) dropped below 3.75 times during the third quarter of Fiscal 2021. The Existing Dollar Term Loan interest rate is re-set on the last business day of each month.

The New Dollar Term Loans' interest rate is currently at Term SOFR, subject to a floor of 0.50%, plus a margin of 3.50%, and as of December 31, 2022, borrowings under this facility bore interest at a rate of 7.82% per annum. The New Dollar Term Loans' interest rate is re-set on the last business day of each month.

Both 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 Fiscal 2022, we made amortization payments against the Existing Dollar Term Loans, the Euro Term Loans, and New Dollar Term Loans of $13.8 million, $5.1 million, and $1.4 million, respectively. During Fiscal 2021, we made amortization payments against the Dollar Term Loans and the original Euro Term Loan of $13.8 million and $7.6 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 agreement, based on the preceding year's final results. Based on our 2022 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 2023.

During the periods presented, foreign exchange gains were recognized in respect of the Euro Term Loans as summarized in the table below. As a portion of the facility was designated as a net investment hedge of certain of our Euro investments, a corresponding portion of the foreign exchange gain (loss) were recognized in OCI.

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Gain (loss) recognized in statement of operations	$ 45.2	$ 38.2	$ (51.4)
Gain (loss) recognized in OCI	10.6	12.4	(15.5)
Total gain (loss)	**$ 55.8**	**$ 50.6**	**$ (66.9)**

The above net foreign exchange gain (loss) recognized in the other (income) expense line of the consolidated statement of operations have been substantially offset by net foreign exchange movements on Euro-denominated intercompany loans as part of our overall hedging strategy.

A wholly-owned U.S. subsidiary of Gates Global LLC is the principal obligor under the Dollar 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.

Unsecured Senior Notes

As of December 31, 2022, we had $568.0 million of Dollar Senior Notes outstanding that were issued in November 2019. These notes are scheduled to mature on January 15, 2026 and bear interest at an annual fixed rate of 6.25% with semi-annual interest payments.

We may redeem the Dollar 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
During the year commencing:	
—2023	101.563 %
—2024 and thereafter	100.000 %

Upon the occurrence of a change of control or a certain qualifying asset sale, the holders of the 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) or 100% (in the case of an asset sale) of their principal amount, plus accrued and unpaid interest.

Revolving credit facility

We have a secured revolving credit facility that provides for multi-currency revolving loans. On November 18, 2021, we amended the credit agreement governing this facility to, among other things, increase the size of the facility from $185.0 million to $250.0 million, extend the maturity date from January 29, 2023 to November 18, 2026 (subject to certain springing maturities related to our Unsecured Senior Notes if more than $500.0 million is outstanding 91 days prior to its maturity), and increase the letter of credit sub-facility from $20.0 million to $75.0 million.

In connection with these amendments, we paid fees of $2.0 million, which have been deferred and will, together with existing deferred issuance costs related to this facility, be amortized to interest expense over the new term of the facility on a straight-line basis.

As of both December 31, 2022 and January 1, 2022, there were no drawings for cash under the revolving credit facility and there were no letters of credit outstanding.

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

Asset-backed revolver

We also have a revolving credit facility backed by certain of our assets in North America. On November 18, 2021, we amended the credit agreement governing this facility to, among other things, reduce the maximum facility size from $325.0 million to $250.0 million ($214.7 million as of December 31, 2022, compared to $240.4 million as of January 1, 2022, based on the values of the secured assets on those dates), and extended the maturity date from January 29, 2023 to November 18, 2026 (subject to certain springing maturities related to our Unsecured Senior Notes if more than $500.0 million is outstanding 91 days prior to its maturity). The facility also allows for a letter of credit sub-facility of $150.0 million within the $250.0 million maximum.

In connection with these amendments, we paid fees of $1.3 million, which have been deferred and will, together with existing deferred issuance costs related to this facility, be amortized to interest expense over the new term of the facility on a straight-line basis.

As of both December 31, 2022 and January 1, 2022, there was no cash outstanding under the asset-backed revolver. We drew $70.0 million in March 2022 under this facility and fully paid down the balance during 2022. There were letters of credit outstanding of $25.8 million and $45.3 million, as of December 31, 2022 and January 1, 2022, respectively.

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

16. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Accrued compensation	$ 60.2	$ 80.2
Current portion of lease obligations	24.8	22.0
Derivative financial instruments	79.4	62.0
Payroll and related taxes payable	18.9	21.9
VAT and other taxes payable	7.2	10.9
Warranty reserve	17.6	18.7
Restructuring reserve	7.5	6.5
Workers' compensation reserve	8.0	7.9
Other accrued expenses and other liabilities	98.7	106.2
	$ 322.3	**$ 336.3**

The above liabilities are presented in Gates' balance sheet as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
—Accrued expenses and other current liabilities	$ 222.6	$ 277.1
—Other non-current liabilities	99.7	59.2
	$ 322.3	**$ 336.3**

Warranty reserves

Changes in warranty reserves (included in accrued expenses and other liabilities) were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Balance at the beginning of the period	$ 18.7	$ 19.8	$ 17.7
Charge for the period	10.8	10.3	11.8
Utilized during the period	(10.9)	(9.6)	(9.5)
Released during the period	(0.3)	(1.9)	(0.7)
Foreign currency translation	(0.7)	0.1	0.5
Balance at the end of the period	**$ 17.6**	**$ 18.7**	**$ 19.8**

An accrual is made for warranty claims on various products depending on specific market expectations and the type of product. These estimates are established using historical information on the nature, frequency and average cost of warranty claims. The majority of the warranty accruals are expected to be utilized during 2023, with the remainder estimated to be utilized within the next three years.

An accrual is made for the cost of product recalls if management considers it probable that it will be necessary to recall a specific product and the amount can be reasonably estimated.

17. Post-retirement benefits

A. Defined contribution pension plans

Gates provides defined contribution pension benefits in most of the countries in which it operates; in particular, the majority of its employees in the U.S. are entitled to such benefits.

During Fiscal 2022, the expense recognized by Gates in respect of defined contribution pension plans was $20.2 million, compared to $20.6 million in Fiscal 2021 and $19.0 million in Fiscal 2020.

B. Defined benefit pension plans

Gates operates defined benefit pension plans in certain of the countries in which it operates, in particular, in the U.S. and U.K. Generally, the pension benefits provided under these plans are based on pensionable salary and the period of service of the individual employees. Plan assets are held separately from those of Gates in funds that are under the control of trustees. All of the defined benefit pension plans operated by Gates 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.

Funded status

The net (deficit) asset recognized in respect of defined benefit pension plans is presented in the balance sheet as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Pension surplus	$ 10.1	$ 75.5
Accrued expenses and other current liabilities	(2.4)	(2.6)
Post-retirement benefit obligations	(50.9)	(64.2)
Net funded status	**$ (43.2)**	**$ 8.7**
Plans whose projected benefit obligation was in excess of plan assets:		
—Aggregate projected benefit obligation	$ 247.5	$ 341.4
—Aggregate fair value of plan assets	$ 194.2	$ 274.6
Plans whose accumulated benefit obligation was in excess of plan assets:		
—Aggregate accumulated benefit obligation	$ 243.4	$ 336.1
—Aggregate fair value of plan assets	$ 194.2	$ 274.0

During Fiscal 2022, the net unfunded pension obligation increased by $51.9 million. This increase was driven primarily by an actual loss on plan assets in Fiscal 2022 of $217.5 million and interest on the benefit obligation of $15.2 million, partially offset by an actuarial gain of $180.6 million on remeasurement of the benefit obligation.

Benefit obligation

Changes in the projected benefit obligation in relation to defined benefit pension plans were as follows:

	For the year ended	
(dollars in millions)	December 31, 2022	January 1, 2022
Benefit obligation at the beginning of the period	$ 821.1	$ 905.9
Employer service cost	3.3	4.3
Plan participants’ contributions	0.1	0.1
Interest cost	15.2	13.4
Net actuarial gain	(180.6)	(43.4)
Benefits paid	(37.8)	(47.6)
Expenses paid from assets	(1.3)	(1.3)
Curtailments and settlements	(1.9)	(1.6)
Foreign currency translation	(57.6)	(8.7)
Benefit obligation at the end of the period	**$ 560.5**	**$ 821.1**
Accumulated benefit obligation	**$ 556.2**	**$ 816.3**

Changes in plan assets

Changes in the fair value of the assets held by defined benefit pension plans were as follows:

(dollars in millions)	For the year ended December 31, 2022	For the year ended January 1, 2022
Plan assets at the beginning of the period	$ 829.8	$ 881.4
Actual loss on plan assets	(217.5)	(4.9)
Employer contributions	9.2	11.3
Plan participants' contributions	0.1	0.1
Settlements	(1.9)	(1.6)
Benefits paid	(37.8)	(47.6)
Expenses paid from assets	(1.3)	(1.3)
Foreign currency translation	(63.3)	(7.6)
Plan assets at the end of the period	**$ 517.3**	**$ 829.8**

Gates' desired investment objectives for pension plan assets include maintaining an adequate level of diversification to reduce interest rate and market risk, and to provide adequate liquidity to meet immediate and future benefit payment requirements. Outside the U.S., Gates' defined benefit pension plans target a mix of growth seeking assets, comprising equities, and income generating assets, such as government and corporate bonds, that are considered by the trustees to be appropriate in the circumstances. Plan assets are rebalanced periodically to maintain target asset allocations.

Certain benefit obligations outside the U.S. are matched by insurance contracts.

Investments in equities and fixed income securities are held in pooled investment funds that are managed by investment managers on a passive (or "index-tracking") basis. The trustees ensure that there is no significant concentration of credit risk in any one financial institution.

Plan assets do not include any financial instruments issued by, any property occupied by, or other assets used by Gates.

The fair values of pension plan assets by asset category were as follows:

	As of December 31, 2022				As of January 1, 2022			
(dollars in millions)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Collective investment trusts:								
Equity Securities	$ —	$ 106.7	$ —	**$ 106.7**	$ —	$ 145.3	$ —	**$ 145.3**
Debt Securities								
—Corporate bonds	—	22.1	—	**22.1**	—	240.1	—	**240.1**
—Government bonds	—	93.0	—	**93.0**	—	199.6	—	**199.6**
Annuities and insurance	—	—	275.4	**275.4**	—	21.2	210.5	**231.7**
Other	—	4.7	—	**4.7**	—	5.6	—	**5.6**
Cash and cash equivalents	15.4	—	—	**15.4**	7.5	—	—	**7.5**
Total	**$ 15.4**	**$ 226.5**	**$ 275.4**	**$ 517.3**	**$ 7.5**	**$ 611.8**	**$ 210.5**	**$ 829.8**

Investments in equities and bonds held in pooled investment funds are measured at the bid price quoted by the investment managers, which reflect the quoted prices of the underlying securities. Insurance contracts are measured at their surrender value quoted by the insurers. Cash and cash equivalents largely attract floating interest rates.

Changes in the fair value of plan assets measured using significant unobservable inputs (level 3) were as follows:

(dollars in millions)	For the year ended December 31, 2022	For the year ended January 1, 2022
Fair value at the beginning of the period	$ 210.5	$ 239.4
Actual loss on plan assets	(54.3)	(13.0)
Purchases	150.2	1.2
Contributions	0.4	—
Impacts of benefits paid	(11.9)	(12.6)
Settlements	(0.7)	(1.3)
Foreign currency translation	(18.8)	(3.2)
Fair value at the end of the period	**$ 275.4**	**$ 210.5**

Estimated future contributions and benefit payments

Gates' funding policy for its defined benefit pension plans is to contribute amounts determined annually on an actuarial basis to provide for current and future benefits in accordance with federal law and other regulations. During 2023, Gates expects to contribute approximately $9.2 million to its defined benefit pension plans (including non-qualified supplemental plans).

Benefit payments, reflecting expected future service, are expected to be made by Gates' defined benefit pension plans as follows:

(dollars in millions)	Total
Fiscal year:	
—2023	$ 42.0
—2024	$ 42.1
—2025	$ 40.9
—2026	$ 42.2
—2027	$ 41.7
—2028 through 2032	$ 203.8

Net periodic benefit cost

Components of the net periodic benefit (income) cost for defined benefit pension plans relating to continuing operations were as follows:

(dollars in millions)	For the year ended December 31, 2022	For the year ended January 1, 2022	For the year ended January 2, 2021
Employer service cost	$ 3.3	$ 4.3	$ 5.6
Settlements and curtailments	(0.2)	0.1	(2.1)
Interest cost	15.2	13.4	18.3
Expected return on plan assets	(21.7)	(19.3)	(22.0)
Amortization of prior net actuarial loss	0.3	0.4	0.2
Amortization of prior service cost	0.9	1.0	0.8
Net periodic benefit (income) cost	**$ (2.2)**	**$ (0.1)**	**$ 0.8**

Other comprehensive income

Changes in plan assets and benefit obligations of defined benefit pension plans recognized in OCI were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Current period net actuarial loss (gain)	$ 58.6	$ (19.1)	$ (32.6)
Amortization of prior net actuarial loss	(0.3)	(0.4)	(0.2)
Prior service cost	—	—	1.5
Amortization of prior service cost	(0.9)	(1.0)	(0.8)
Gain (loss) recognized due to settlements and curtailments	0.2	(0.1)	2.1
Pre-tax changes recognized in OCI other than foreign currency translation	**57.6**	**(20.6)**	**(30.0)**
Foreign currency translation	(0.5)	(0.3)	1.7
Total pre-tax changes recognized in OCI	**$ 57.1**	**$ (20.9)**	**$ (28.3)**

Cumulative losses before tax recognized in OCI in respect of post-retirement benefits that had not yet been recognized as a component of the net periodic benefit cost were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Actuarial loss (gain)	$ 29.4	$ (29.1)	$ (9.5)
Prior service costs	9.9	10.8	11.8
Pre-tax changes recognized in OCI other than foreign currency translation	**39.3**	**(18.3)**	**2.3**
Foreign currency translation	(2.0)	(1.5)	(1.2)
Cumulative total	**$ 37.3**	**$ (19.8)**	**$ 1.1**

Assumptions

Major assumptions used in determining the benefit obligation and the net periodic benefit cost for defined benefit pension plans are presented in the following table as weighted averages:

	As of December 31, 2022	As of January 1, 2022
Benefit obligation:		
—Discount rate	4.598 %	2.003 %
—Rate of salary increase	3.511 %	3.095 %
Net periodic benefit cost:		
—Discount rate	2.005 %	1.527 %
—Rate of salary increase	3.105 %	3.032 %
—Expected return on plan assets	2.881 %	2.380 %

In determining the expected return on plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes, and economic and other indicators of future performance. Return projections are validated using a simulation model that incorporates yield curves, credit spreads and risk premiums to project long-term prospective returns.

C. Other defined benefit plans

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

Funded status

The deficit recognized in respect of other defined benefit plans is presented in the balance sheet as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Accrued expenses and other current liabilities	$ 3.1	$ 4.0
Post-retirement benefit obligations	25.3	42.0
	$ 28.4	**$ 46.0**

Benefit obligation

Changes in the accumulated benefit obligation in relation to other defined benefit plans were as follows:

	For the year ended	
(dollars in millions)	December 31, 2022	January 1, 2022
Benefit obligation at the beginning of the period	$ 46.0	$ 56.7
Interest cost	1.2	1.2
Actuarial gain	(13.9)	(8.4)
Benefits paid	(3.3)	(3.8)
Plan amendments	(0.5)	—
Foreign currency translation	(1.1)	0.3
Benefit obligation at the end of the period	**$ 28.4**	**$ 46.0**
Accumulated benefit obligation	**$ 28.4**	**$ 46.0**

Estimated future contributions and benefit payments

Contributions are made to our other defined benefit plans as and when benefits are paid from the plans. During 2023, Gates expects to contribute approximately $3.2 million to its other benefit plans.

Benefit payments, reflecting expected future service, are expected to be made by Gates' other defined benefit plans as follows:

(dollars in millions)	Total
Fiscal years:	
—2023	$ 3.2
—2024	$ 3.1
—2025	$ 2.9
—2026	$ 2.8
—2027	$ 2.6
—2028 through 2032	$ 11.2

Net periodic benefit cost

Components of the net periodic benefit (income) cost for other defined benefit plans were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Interest cost	$ 1.2	$ 1.2	$ 1.7
Amortization of prior net actuarial gain	(1.8)	(1.0)	(1.0)
Amortization of prior service credit	(0.4)	(0.4)	(0.4)
Net periodic benefit (income) cost	**$ (1.0)**	**$ (0.2)**	**$ 0.3**

The net periodic benefit (income) cost relates entirely to continuing operations.

Other comprehensive income

Changes in the benefit obligation of other defined benefit plans recognized in OCI were as follows:

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Current period net actuarial (gain) loss	$ (13.9)	$ (8.4)	$ 0.3
Amortization of prior net actuarial gain	1.8	1.0	1.0
Prior service credit	(0.5)	—	—
Amortization of prior service credit	0.4	0.4	0.4
Pre-tax changes recognized in OCI other than foreign currency translation	**(12.2)**	**(7.0)**	**1.7**
Foreign currency translation	0.6	—	—
Total pre-tax changes recognized in OCI	**$ (11.6)**	**$ (7.0)**	**$ 1.7**

Cumulative gains before tax recognized in OCI in respect of other post-retirement benefits that had not yet been recognized as a component of the net periodic benefit cost were as follows:

(dollars in millions)	For the year ended December 31, 2022	January 1, 2022	January 2, 2021
Actuarial gains	$ (35.5)	$ (23.4)	$ (16.0)
Prior service credits	(2.7)	(2.6)	(3.0)
Other adjustments	0.2	0.2	0.2
Pre-tax changes recognized in OCI other than foreign currency translation	**(38.0)**	**(25.8)**	**(18.8)**
Foreign currency translation	0.4	(0.2)	(0.2)
Cumulative total	**$ (37.6)**	**$ (26.0)**	**$ (19.0)**

Assumptions

The primary assumption used in determining the benefit obligation and the net periodic benefit cost for other defined benefit plans is the discount rate, the weighted average of which is presented in the following table:

	Benefit obligation		Net periodic benefit cost	
	As of December 31, 2022	As of January 1, 2022	As of December 31, 2022	As of January 1, 2022
Discount rate	5.44 %	2.81 %	2.81 %	2.30 %

The initial healthcare cost trend rate as of December 31, 2022, starts at 5.97%, compared to 5.74% as of January 1, 2022, with an ultimate trend rate of 4.85%, compared to 4.91% as of January 1, 2022, beginning in 2027.

18. 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 Fiscal 2022, we recognized a charge of $44.3 million, compared to $24.6 million and $19.8 million during Fiscal 2021 and Fiscal 2020, respectively.

Awards issued under the 2014 Omaha Topco Ltd. 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. No new awards have been granted under this plan since 2017. The options are 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 our majority owners, who are various investment funds managed by affiliates of 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 were required be 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 in the related grant agreements) occurred following the sale by Blackstone of a certain portion of their interest in Gates, resulting in the vesting of the Tier II and IV options as the specified investment returns related to these options had been met. In connection with this vesting, a one-time share-based compensation charge of $16.1 million was recognized. 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 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, the SAR equivalents of the Tier II and IV awards also vested in March 2022, resulting in a share-based compensation charge of $2.6 million. 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 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. For PRSUs issued in 2022, the terms 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.

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

Summary of movements in options outstanding

		Year ended December 31, 2022		
	Plan	Number of options	Weighted average exercise price $	
Outstanding at the beginning of the period:				
—Tier I	*2014 Plan*	2,752,700	$	6.91
—Tier II	*2014 Plan*	3,577,470	$	6.90
—Tier III	*2014 Plan*	3,577,470	$	6.90
—Tier IV	*2014 Plan*	3,577,470	$	10.35
—SARs	*Both plans*	829,108	$	9.31
—Share options	*2018 Plan*	3,254,097	$	14.84
—Premium-priced options	*2018 Plan*	835,469	$	18.88
		18,403,784	**$**	**9.63**
Granted during the period:				
—SARs	*2018 Plan*	62,055	$	15.76
		62,055	**$**	**15.76**
Forfeited during the period:				
—Tier III	*2014 Plan*	(188,157)	$	6.93
—SARs	*2018 Plan*	(20,004)	$	14.11
—Share options	*2018 Plan*	(110,381)	$	14.18
		(318,542)	**$**	**9.89**
Expired during the period:				
—Tier III	*2014 Plan*	(3,389,313)	$	6.90
—Tier IV	*2014 Plan*	(79,760)	$	11.80
—SARs	*Both Plans*	(183,908)	$	7.55
—Share options	*2018 Plan*	(134,837)	$	15.14
		(3,787,818)	**$**	**7.33**
Exercised during the period:				
—Tier I	*2014 Plan*	(231,527)	$	7.09
—Tier II	*2014 Plan*	(887,919)	$	6.70
—Tier IV	*2014 Plan*	(805,159)	$	9.84
—SARs	*Both Plans*	(4,164)	$	11.00
—Share options	*2018 Plan*	(28,745)	$	13.42
		(1,957,514)	**$**	**8.15**
Outstanding at the end of the period:				
—Tier I	*2014 Plan*	2,521,173	$	6.89
—Tier II	*2014 Plan*	2,689,551	$	6.97
—Tier III	*2014 Plan*	—	$	—
—Tier IV	*2014 Plan*	2,692,551	$	10.46
—SARs	*Both plans*	683,087	$	10.22
—Share options	*2018 Plan*	2,980,134	$	14.86
—Premium-priced options	*2018 Plan*	835,469	$	18.88
		12,401,965	**$**	**10.59**
Exercisable at the end of the period		10,881,483	$	9.85
Vested and expected to vest at the end of the period		12,371,354	$	10.57

As of December 31, 2022, the aggregate intrinsic value of options that were exercisable was $28.3 million, and these options had a weighted average remaining contractual term of 3.8 years. As of December 31, 2022, the aggregate intrinsic value of options that were vested or expected to vest was $28.3 million, and these options had a weighted average remaining contractual term of 4.2 years.

As of December 31, 2022, the unrecognized compensation charge relating to the nonvested options was $1.5 million, which is expected to be recognized over a weighted-average period of 0.9 years.

During Fiscal 2022, cash of $15.9 million was received in relation to the exercise of vested options, compared to $4.6 million and $3.1 million during Fiscal 2021 and Fiscal 2020, respectively. The aggregate intrinsic value of options exercised during Fiscal 2022 was $1.0 million, compared to $4.8 million and $2.5 million during Fiscal 2021 and Fiscal 2020, respectively.

Summary of movements in RSUs and PRSUs outstanding

	Year ended December 31, 2022		
	Number of awards		Weighted average grant date fair value $
Outstanding at the beginning of the period:			
—RSUs	1,744,405	$	13.98
—PRSUs	883,978	$	16.98
	2,628,383	**$**	**14.99**
Granted during the period:			
—RSUs	2,823,325	$	13.67
—PRSUs	425,670	$	17.23
	3,248,995	**$**	**14.14**
Forfeited during the period:			
—RSUs	(242,925)	$	14.63
—PRSUs	(152,780)	$	21.11
	(395,705)	**$**	**17.13**
Vested during the period:			
—RSUs	(833,546)	$	13.83
—PRSUs	(80,308)		16.46
	(913,854)	**$**	**14.06**
Outstanding at the end of the period:			
—RSUs	3,491,259	$	13.72
—PRSUs	1,076,560	$	16.53
	4,567,819	**$**	**14.38**

As of December 31, 2022, the unrecognized compensation charge relating to nonvested RSUs and PRSUs was $31.3 million, which is expected to be recognized over a weighted average period of 1.9 years, subject, where relevant, to the achievement of the performance conditions described above. The total fair value of RSUs and PRSUs vested Fiscal 2022 was $12.9 million, compared to $12.3 million, and $3.1 million during Fiscal 2021 and Fiscal 2020 respectively.

Valuation of awards granted during the period

The grant date fair value of the options and SARs are measured using a Black-Scholes valuation model. RSUs are valued at the share price on the date of grant. The premium-priced options and PRSUs were valued using Monte Carlo simulations. As Gates only has volatility data for its shares for the period since its initial public offering, 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:

	For the year ended		
	December 31, 2022	January 1, 2022	January 2, 2021
Weighted average grant date fair value:			
—SARs	$ 6.94	$ 6.66	$ 4.59
—Share options	n/a	$ 6.66	$ 4.78
—Premium-priced options	n/a	$ 6.36	n/a
—RSUs	$ 13.67	$ 15.16	$ 11.79
—PRSUs	$ 17.23	$ 17.92	$ 14.41
Inputs to the model:			
—Expected volatility - SARs	43.5 %	46.1 %	37.7 %
—Expected volatility - share options	n/a	46.1 %	37.6 %
—Expected volatility - premium-priced options	n/a	46.1 %	n/a
—Expected volatility - PRSUs	49.1 %	50.8 %	40.4 %
—Expected option life for SARs (years)	6.0	6.0	6.0
—Expected option life for share options (years)	n/a	6.0	6.0
—Expected option life for premium-priced options (years)	n/a	6.0	n/a
—Risk-free interest rate:			
SARs	1.91 %	0.95 %	1.25 %
Share options	n/a	0.95 %	1.33 %
Premium-priced options	n/a	0.95 %	n/a
PRSUs	1.72 %	0.27 %	1.29 %

19. Equity

Movements in the Company's number of shares in issue for the year ended December 31, 2022 and January 1, 2022, respectively, were as follows:

	For the year ended	
(number of shares)	December 31, 2022	January 1, 2022
Balance as of the beginning of the period	291,282,137	290,853,067
Exercise of share options	1,953,350	518,600
Vesting of restricted stock units, net of withholding taxes	809,347	566,921
Shares repurchased and cancelled	(11,465,917)	(656,451)
Balance as of the end of the period	**282,578,917**	**291,282,137**

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 November 2021, the Company established a repurchase program allowing for up to $200 million in authorized share repurchases. During Fiscal 2021, 656,451 shares were repurchased and cancelled under this program, at an aggregate cost of 10.6 million.

On March 24, 2022, the Company, certain selling shareholders affiliated with Blackstone Inc. and Citigroup Global Markets Inc. ("Citigroup") entered into an underwriting agreement pursuant to which the selling shareholders agreed to sell to Citigroup 5,000,000 ordinary shares of the Company at a price of $15.14 per ordinary share (the "Offering"). The selling shareholders also granted to Citigroup an option to purchase up to 750,000 additional ordinary shares of the Company; this option was exercised in full on March 25, 2022. The Company did not receive any proceeds from the sale of ordinary shares in the Offering, which closed on March 30, 2022. In connection with the Offering, the Company repurchased 8,000,000 ordinary shares through Citigroup from the same selling shareholders at a price of $15.14 per ordinary share for an aggregate consideration of $121.1 million, plus costs directly related to the transaction of $0.8 million. This repurchase was funded by cash on hand and a borrowing of $70.0 million under Gates' asset-backed revolving credit facility.

During Fiscal 2022, Gates repurchased a total of 11,465,917 ordinary shares at an aggregate cost of $174.7 million, and incurred an additional $1.2 million of costs related directly to these repurchases. All shares repurchased have been cancelled and the program expired on December 31, 2022.

20. Analysis of accumulated other comprehensive income (loss)

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

(dollars in millions)	Post-retirement benefit	Cumulative translation adjustment	Cash flow hedges	Accumulated OCI attributable to shareholders	Non-controlling interests	Accumulated OCI
As of December 28, 2019	**$ (9.3)**	**$ (812.3)**	**$ (36.8)**	**$ (858.4)**	**$ (46.0)**	**$ (904.4)**
Foreign currency translation	1.7	42.1	—	**43.8**	27.4	**71.2**
Cash flow hedges movements	—	—	(13.3)	**(13.3)**	—	**(13.3)**
Post-retirement benefit movements	22.5	—	—	**22.5**	0.5	**23.0**
Other comprehensive income (loss)	**24.2**	**42.1**	**(13.3)**	**53.0**	**27.9**	**80.9**
As of January 2, 2021	**14.9**	**(770.2)**	**(50.1)**	**(805.4)**	**(18.1)**	**(823.5)**
Foreign currency translation	(0.1)	(66.5)	—	**(66.6)**	(5.2)	**(71.8)**
Cash flow hedges movements	—	—	25.0	**25.0**	—	**25.0**
Post-retirement benefit movements	21.8	—	—	**21.8**	(0.1)	**21.7**
Other comprehensive income (loss)	**21.7**	**(66.5)**	**25.0**	**(19.8)**	**(5.3)**	**(25.1)**
As of January 1, 2022	**36.6**	**(836.7)**	**(25.1)**	**(825.2)**	**(23.4)**	**(848.6)**
Foreign currency translation	(1.2)	(113.3)	—	**(114.5)**	(42.1)	**(156.6)**
Cash flow hedges movements	—	—	56.7	**56.7**	—	**56.7**
Post-retirement benefit movements	(34.8)	—		**(34.8)**	0.9	**(33.9)**
Other comprehensive (loss) income	**(36.0)**	**(113.3)**	**56.7**	**(92.6)**	**(41.2)**	**(133.8)**
As of December 31, 2022	**$ 0.6**	**$ (950.0)**	**$ 31.6**	**$ (917.8)**	**$ (64.6)**	**$ (982.4)**

21. Related party transactions

A. Entities affiliated with Blackstone

In January 2018, Gates and Blackstone Management Partners L.L.C. ("BMP") and Blackstone Tactical Opportunities Advisors L.L.C., each affiliates of our Sponsor (the "Managers"), entered into a Monitoring Fee Agreement (the "Monitoring Fee Agreement"). Under this agreement, which terminated in January 2020 upon the second anniversary of the closing date of the initial public offering of Gates, the Company and certain of its direct and indirect subsidiaries (collectively the "Monitoring Service Recipients") engaged the Managers to provide certain monitoring, advisory and consulting services.

In consideration of these oversight services, Gates agreed to pay BMP an annual fee of 1% of a covenant EBITDA measure defined under the agreements governing our senior secured credit facilities. In addition, the Monitoring Service Recipients agreed to reimburse the Managers for any related out-of-pocket expenses incurred by the Managers and their affiliates. During Fiscal 2022 and Fiscal 2021, Gates incurred no cost in respect of these oversight services and out-of-pocket expenses, compared to $1.9 million during Fiscal 2020, and there were no amounts owing at December 31, 2022 or January 1, 2022.

In connection with the initial public offering, we entered into a Support and Services Agreement with 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 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 19, in March 2022, the Company repurchased 8,000,000 ordinary shares through Citigroup from certain shareholders affiliated with Blackstone Inc. for an aggregate consideration of $121.1 million, plus costs directly related to the transaction of $0.8 million.

In connection with the issuance of the New Dollar Term Loan on November 16, 2022, Blackstone Alternative Credit Advisors LP, an affiliate of Blackstone, was an initial lender of $50.0 million and received fees of $0.3 million. This transaction was on terms equivalent to those of unaffiliated parties.

B. Equity method investees

Sales to and purchases from equity method investees were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Sales	$ —	$ 0.1	$ 0.9
Purchases	$ (16.7)	$ (14.9)	$ (13.8)

Amounts outstanding in respect of these transactions were payables of $2.4 million as of December 31, 2022, compared to $1.0 million as of January 1, 2022. 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:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Sales	$ 59.0	$ 67.3	$ 47.5
Purchases	$ (18.4)	$ (21.7)	$ (18.5)

Amounts outstanding in respect of these transactions were as follows:

(dollars in millions)	As of December 31, 2022	As of January 1, 2022
Receivables	$ 4.7	$ 5.4
Payables	$ (3.2)	$ (3.6)

22. Commitments and contingencies

A. Capital and other commitments

As of December 31, 2022, we had entered into contractual commitments for the purchase of property, plant and equipment amounting to $12.1 million, compared to $5.1 million as of January 1, 2022, and for the purchase of non-integral computer software amounting to $6.6 million, compared to $0.7 million as of January 1, 2022. As of December 31, 2022, we had entered into contractual commitments for non-capital items such as raw materials and supplies amounting to $25.3 million, compared to $31.3 million as of January 1, 2022.

B. Performance bonds, letters of credit and bank guarantees

As of December 31, 2022, letters of credit were outstanding against the asset-backed revolving facility amounting to $25.8 million, compared to $45.3 million as of January 1, 2022. We had additional outstanding performance bonds, letters of credit and bank guarantees amounting to $8.7 million as of December 31, 2022, compared to $6.3 million as of January 1, 2022.

C. Company–owned life insurance policies

Gates is the beneficiary of a number of corporate-owned life insurance policies against which it borrows from the relevant life insurance company. As of December 31, 2022, the surrender value of the policies was $969.7 million, compared to $966.1 million as of January 1, 2022, and the amount outstanding on the related loans was $967.9 million, compared to $964.3 million as of January 1, 2022. For financial reporting purposes, these amounts are offset as a legal right of offset exists and the net receivable of $1.8 million, compared to $1.8 million as of January 1, 2022, is included in other receivables.

D. Contingencies

The Company is, from time to time, party to general legal proceedings and claims, which arise in the ordinary course of business including those relating to environmental obligations, product liability, intellectual property, commercial and contractual disputes, employment matters and other business matters. 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 determined in accordance with 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.

E. Allowance for expected credit losses

Movements in our allowance for expected credit losses were as follows:

	For the year ended		
(dollars in millions)	December 31, 2022	January 1, 2022	January 2, 2021
Balance at beginning of year	$ 5.1	$ 5.2	$ 8.6
Current period provision for expected credit losses	0.6	0.2	0.7
Write-offs charged against allowance	(1.3)	(0.1)	(4.3)
Foreign currency translation	(0.2)	(0.2)	0.2
Balance at end of year	**$ 4.2**	**$ 5.1**	**$ 5.2**

In late January 2023, one of our customers filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of December 31, 2022, and at the time of filing, this customer's outstanding balance represented less than 2% of our outstanding accounts receivable. We are currently unable to predict the outcome of this matter, including whether and to what extent we may incur a credit loss.

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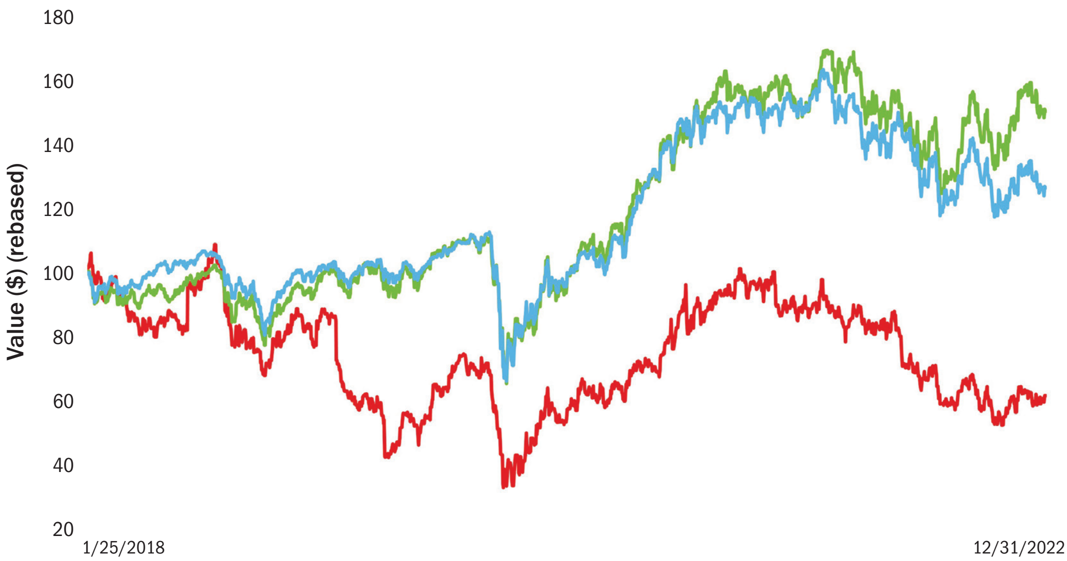
TOTAL SHAREHOLDER RETURN



Gates Industrial Corporation plc

S&P MidCap 400 Capital Goods Industry Group

Russell 2500 Index

This graph shows the value, by 12/31/2022, of $100 invested in Gates Industrial Corporation plc on 1/25/2018, at the IPO price of $19, compared with the value of $100 invested in the S&P Midcap 400 Capital Goods Industry Group Index and Russell 2500 Index on a daily basis.

Source: S&P Capital IQ

Board of Directors

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Chair of the Board
Executive Advisor to Blackstone

IVO JUREK
Chief Executive Officer
Gates Industrial Corporation plc

FREDRIK ELIASSON
Former Chief Financial Officer
Change Healthcare

JAMES W. IRELAND, III
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Chief Commercial Officer

L. BROOKS MALLARD
Executive Vice President,
Chief Financial Officer

THOMAS G. PITSTICK
Senior Vice President,
Chief Strategy Officer

NON-GAAP MEASURES

This Annual Report includes certain non-GAAP financial measures, which management believes are useful to investors. Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. The following tables provide a reconciliation of certain of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

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

RECONCILIATION TO ADJUSTED NET INCOME	FY 2022	FY 2021
Net Income Attributable to Shareholders	**$220.8**	**$297.1**
Adjusted for:		
Loss on disposal of discontinued operations	0.4	-
Amortization of intangible assets arising from the 2014 acquisition of Gates	115.6	120.3
Transaction-related expenses	2.1	3.7
Asset impairments	1.1	0.6
Restructuring expenses	9.5	7.4
Share-based compensation expense	44.3	24.6
Inventory impairments and adjustments (included in cost of sales) [1]	20.9	1.4
Adjustments relating to post-retirement benefits	(6.5)	(4.6)
Financing and other FX related (gain) losses	(7.9)	7.6
One-time tax benefit from unrecognized tax benefit [2]	(26.4)	-
Other adjustments	(6.2)	(18.4)
Estimated tax effect of the above adjustments	(38.7)	(31.6)
Adjusted Net Income	**$329.0**	**$ 408.1**
Diluted weighted average number of shares outstanding	287,586,210	297,294,075
Adjusted Net Income per diluted share	**$1.14**	**$1.37**

[1] During the three months and year ended December 31, 2022, inventory impairments and adjustments included $1.0 million and $19.4 million, respectively, for the reversal of the adjustment to remeasure certain inventories on a LIFO basis. The recent inflationary environment has caused LIFO values to drop below FIFO values because LIFO measurement results in the more recent inflated costs being matched against current sales while historical, lower costs are retained in inventories.

[2] During the three month and year ended December 31, 2022, one-time tax benefit of $26.4 million related to unrecognized tax benefits due to lapsed statute of limitations.

(USD in millions)

RETURN ON INVESTED CAPITAL (ROIC)	FY 2022	FY 2021
LTM Adjusted EBITDA	**$680.6**	**$735.8**
LTM Total depreciation and amortization	(217.2)	(222.6)
LTM Amortization of intangible assets arising from the 2014 acquisition of Gates	115.6	120.3
LTM Adjusted EBIT	**579.0**	**633.5**
Notional tax at 25%	(144.8)	(158.4)
LTM Tax-effected Adjusted EBIT	**$434.2**	**$475.1**
Total Assets	$7,191.6	$7,533.0
Adjusted for:		
Cash	(578.4)	(658.2)
Taxes receivable	(28.1)	(34.8)
Deferred tax assets	(600.3)	(639.3)
Prepaid taxes	(11.4)	(13.4)
Accounts payable	(469.6)	(506.6)
Intangibles arising from the acquisition of Gates	(3,335.1)	(3,557.7)
Invested Capital	**$2,168.7**	**$2,123.0**
Return On Invested Capital	**20.0%**	**22.4%**

(USD in millions)

RECONCILIATION OF FREE CASH FLOW	FY 2022	FY 2021
Net Cash Provided By Operating Activities	$265.8	$382.4
Capital Expenditures [3]	(87.0)	(87.0)
Free Cash Flow	**$178.8**	**$295.4**

(USD in millions)

RECONCILIATION OF FREE CASH FLOW CONVERSION	FY 2022	FY 2021
Free Cash Flow	$178.8	$295.4
Adjusted Net Income	$329.0	$408.1
Free Cash Flow Conversion	**54.3%**	**72.4%**

[3] Capital expenditures represent purchases of property, plant and equipment and purchases of intangible assets.

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