Gates®

2020 ANNUAL REPORT

GATES VISION

Achieve global product innovation leadership and expand our premier position in our core power transmission and fluid power markets while delivering above-market growth, superior profitability and strong cash flow generation to provide shareholders with attractive returns.

2,400+
Patents and Patent Applications

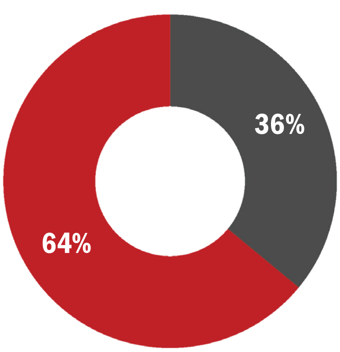
$2.8B
FY 2020 Net Sales

$309M
FY 2020 Cash from Operations

$507M
FY 2020 Adjusted EBITDA

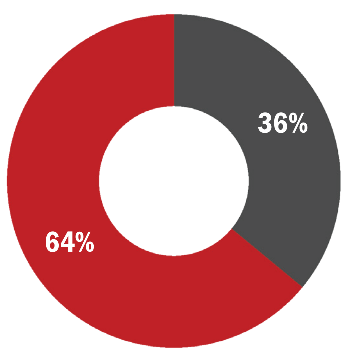
18%
FY 2020 Adjusted EBITDA Margin

FY 2020 NET SALES



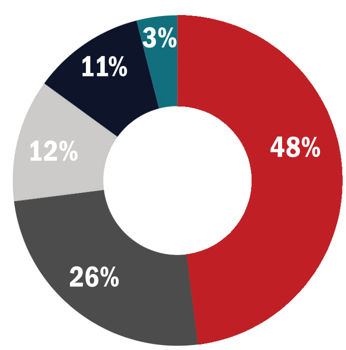
PRODUCT SEGMENTS

- Power Transmission
- Fluid Power



CHANNEL PRESENCE

- Replacement
- First-Fit



GEOGRAPHIC DIVERSITY

- North America
- Europe, Middle East & Africa
- Greater China
- East Asia & India
- South America

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Measures" in this report.

SECULAR TRENDS

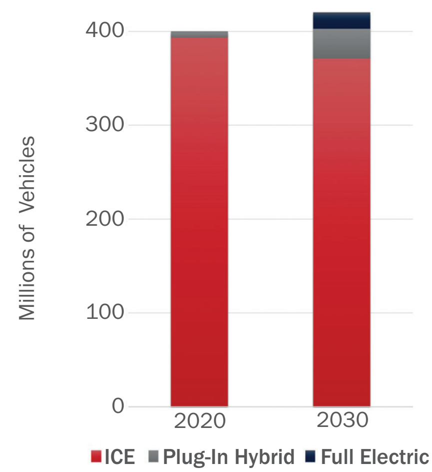
INDUSTRIAL AUTOMATION

Gates products play critical roles in industrial automation applications across a wide range of end markets such as food and beverage, pharma and medical products, as well as general manufacturing and intralogistics. Our clean, quiet, reliable and low-maintenance power transmission solutions offer a strong value proposition across a wide range of automation applications, such as robotics, shuttle and lift systems, machining and assembly equipment, container conveying technology, sorter systems, automated picking equipment and many others.

ELECTRIFICATION

The move towards passenger and commercial vehicle electrification presents a significant opportunity for Gates. The thermal management products we provide for internal combustion engines become even more important in a fully electric vehicle where they regulate the temperature of the battery, inverter, motor(s) and passenger compartment. Given the complexity of these thermal management systems, the overall available content for Gates increases significantly. We are well-positioned to capitalize on this shift in propulsion technology as these vehicles become a more meaningful portion of the aged fleet in the future.

Global Car Parc - Vehicles Aged 7-12 Years

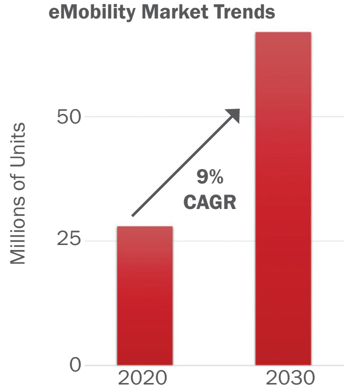


SOURCE: IHS Markit

MOBILITY & RECREATION

The markets for personal mobility and recreation applications, including bicycles, scooters and motorcycles, as well as powersports and fitness equipment, are experiencing strong growth as many users seek more independent options for transportation and recreation. The value proposition offered by Gates power transmission solutions, including maintenance-free operation, improved durability and reduced weight and noise, is particularly compelling in these applications compared to a more traditional chain drive, especially as these platforms move towards electric propulsion.

eMobility Market Trends



NOTE: eMobility defined as electric bikes, scooters, motorcycles and powersports applications
SOURCE: Bike Europe, South China Morning Post, Business Insider, Allied Market Research, Inkwood Research and Gates management estimates

INFRASTRUCTURE

The increasing focus on infrastructure investment around the world is creating incremental opportunities for Gates content. Our power transmission and fluid power solutions support infrastructure projects through a variety of applications, from aggregate processing to the HVAC units in commercial buildings, and everything in between; Gates is there. OEMs, distributors and end-users around the world depend on the safety, reliability and efficiency our solutions bring to these applications.

SUSTAINABLY ADVANCING THE WAY THE WORLD MOVES

GOVERNANCE

Focused on maintaining ethical and comprehensive corporate governance structures.

As part of its duty to oversee Gates corporate strategy, our Board of Directors believes governing Gates business responsibly is intrinsically tied to achieving operational excellence. To ensure that Gates corporate strategy aligns with its values, our Board is focused on the company's commitment to ethics, integrity and corporate responsibility.

- Living Our Culture
- Compliance Commitment
- Compliance Assurance
- Ethical Sourcing

TECHNOLOGY

Engineering innovative solutions that advance the way the world moves.

Gates is continually engineering products that meet and exceed the growing needs and diverse challenges of customers. Gates eco-innovation aims to reduce the negative environmental impacts of our products and end-user applications, while delivering improved performance and extended product life.

- Quality & Safety
- Lifecycle Management
- Material Sourcing
- Environmental Impact

ENVIRONMENT

Committed to continuously improving environmental sustainability.

Across our global footprint, Gates remains committed to conducting business with respect and consideration for the environment. As an organization, we utilize the creativity, passion, and expertise of our employees around the world as we work to continually improve our manufacturing processes, optimizing resource efficiency while maintaining performance.

- Greenhouse Gas Emissions
- Energy Conservation & Consumption
- Water Conservation & Consumption
- Waste Minimization & Recycling

STEWARDSHIP

Dedicated to enhancing the experience of our employees and society.

We are dedicated to protecting and enhancing the lives of our people and the communities in which we operate and live.

- Health & Safety
- Community Engagement
- Employee Well-Being
- Diversity, Equity, Inclusion

DRIVEN BY POSSIBILITY™

> 2020 was a year that presented many challenges, but also a year that simply put, demonstrated the resiliency of our business and our people.

DEAR FELLOW SHAREHOLDERS,

Since I arrived at Gates over six years ago, the company has navigated numerous challenging environments, but 2020 was a year like no other. From the beginning of the COVID-19 crisis, we stayed true to our core values of Dedication, Tenacity, Collaboration, Curiosity, and Accountability, values that have served us well since our founding in 1911. In an open letter we published to our employees and partners in March of 2020, I highlighted our top priorities and guiding principles for managing through the pandemic. They are:

- Keeping our 14,000+ employees, families and communities safe
- Working with local, regional and national governments to mitigate the spread of the virus
- Continuing to support our customers, many of whom are in essential industries such as transportation, energy, agriculture, logistics, construction and other critical markets

As I reflect back over the past year, I am truly humbled by how our team implemented these principles and stepped up and delivered during this unprecedented global health crisis.

2020 also provided a reminder of how much work we still have in front of us as a society to ensure that diversity is welcome and celebrated, and that every person is treated equally. At Gates we foster an environment of inclusion and equality across all aspects of our culturally rich global organization. We strongly believe that diversity of backgrounds and experiences is fundamental to operating our business, and a foundation for progress in our communities.

Despite the challenging environment we continued to operate throughout 2020 to support our global customers. Our “in-region/for-region” manufacturing strategy not only allows us to shorten supply chains and keep close to our customers, but in 2020 it also enabled us to mitigate supply disruptions and support our customers’ needs. Throughout the year, we prudently managed our controllable costs, accelerated our restructuring plan, maintained our employees’ benefits and demonstrated that our business is capable of performing well through a significant crisis. Importantly, we never stopped investing in our organic growth initiatives, improving our manufacturing capabilities, and developing our teams to support our mid-term financial targets. Through these efforts, we delivered solid Adjusted EBITDA margin of 18% on $2.8 billion in revenue and $309 million of cash from operations, quite remarkable achievements in the context of 2020. At the end of the year, we paid down approximately $300 million of long-term debt, demonstrating our commitment to deleveraging and increasing optionality for our business.

The Gates Production System and The Gates Innovation System are delivering meaningful improvements in our operations whether through improving productivity, safety and quality, or helping us meet our sustainability goals through the reduction of scrap and waste, water consumption and greenhouse gas generation. Our product solutions are also helping our customers achieve their sustainability goals by improving the efficiency, safety and reliability of their products or operations. At **GTES**, we are committed to sustainably advancing the way the world moves through ethical and comprehensive corporate **G**overnance, innovative **T**echnology solutions, improving **E**nvironmental sustainability and community **S**tewardship to enhance the experiences of our employees and advance our society. I am quite happy with the progress we have achieved on ESG initiatives overall and invite you to learn more on our website at https://www.gates.com/sustainability.

The end markets our company participates in are supported by positive secular trends, and through 2020 we saw many of these accelerate. Whether it is increasing levels of industrial automation in factories around the world, infrastructure investments, sustainability of operations, eCommerce-driven impact on warehousing and logistics, the electrification of transportation or the increasing consumer demand for personal mobility and home fitness options, Gates stands to benefit. Our growth initiatives such as chain to belt, fluid power expansion, vehicle electrification, and personal mobility all saw positive uplift during the year with ongoing momentum that we expect to continue for the foreseeable future.

> **“The transformation we’ve driven in the business over the last several years has positioned us well to capitalize on these secular tailwinds and execute our initiatives to drive above-market growth.”**

As we look forward to the future, I would like to thank our employees around the world for their dedication, perseverance, and flexibility in working together to deliver a solid year in an exceptionally challenging environment. While we do not know when COVID-19 will be fully behind us, nor do we know what might come next, we do know that we are prepared and capable of stepping up to meet the challenge. I would also like to thank our shareholders for their continued trust and support. We are emerging from the pandemic in a position of strength and look forward to translating the actions we have taken to improve the business into long-term value creation.

Sincerely,

Ivo Jurek
Chief Executive Officer

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 January 2, 2021
or

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

For the transition period from to

Commission file number 001-38366

Gates Industrial Corporation plc
(Exact Name of Registrant as Specified in its Charter)

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

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 $437.5 million.

As of February 5, 2021, there were 290,853,067 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 2021 annual general meeting of shareholders are incorporated by reference

TABLE OF CONTENTS

Forward-looking Statements

This Annual Report on Form 10-K for the fiscal year ended January 2, 2021 (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. 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 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 2020" refers to the fiscal year ended January 2, 2021, "Fiscal 2019" refers to the fiscal year ended December 28, 2019, "Fiscal 2018" refers to the fiscal year ended December 29, 2018; and
- "Blackstone" or "our Sponsor" refer to investment funds affiliated with The Blackstone Group Inc., which, although no individual fund owns a controlling interest in us, together represent our current majority owners.

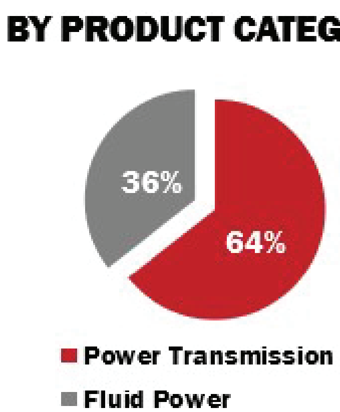
PART I

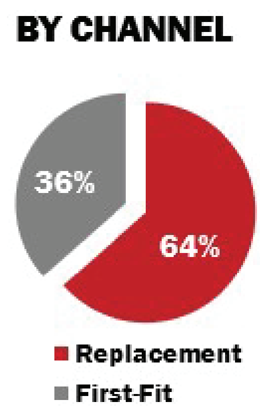
Item 1. Business

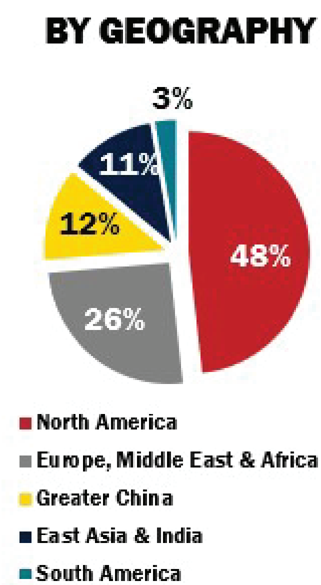
We are a global manufacturer of innovative, highly engineered power transmission and fluid power solutions. We offer a broad portfolio of products to diverse replacement channel customers, and to original equipment ("first-fit") manufacturers as specified components, with the majority of our revenue coming from replacement channels. Our products are used in applications across numerous end markets, including off-highway end markets such as construction and agriculture, on-highway end markets such as transportation, diversified industrial, energy, automotive, consumer products and many others. 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 of our performance include industrial production, industrial sales and manufacturer shipments. 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 preventive, 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 2020 net sales of $2,793.0 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 lay 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.

We maintain an active acquisition pipeline. In 2018, we acquired Rapro, based in Turkey, and in 2017 we closed two transactions, Techflow Flexibles in the U.K. and Atlas Hydraulics in North America. All three of these acquisitions have been focused on expanding our presence in industrial markets with new products, capabilities, capacity and geographic reach. In addition, we continue to invest organically in new production capacity. During Fiscal 2018, we opened two new facilities located in Poland and in Mexico, and we also expanded our Changzhou facility in China.

Our Solutions

We operate our business on a product-line basis through our two reporting segments - *Power Transmission* and *Fluid Power*. See note 4 of 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. 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 64% of our total net sales for Fiscal 2020. 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 used to convey various fluids. Our fluid power products represented approximately 36% of our net sales for Fiscal 2020.

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 preemptively as part of ongoing 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 fulfilment services.

Power Transmission. Our Power Transmission solutions enable 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 a conveyor belt or robotic picking machine;
- *Mobile drives:* drives on a piece of mobile machinery such as a combine harvester or a road compactor, or in applications such as the brush head of a vacuum cleaner;
- *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;
- *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; and
- *Vertical lift:* elevators, cargo lifts and other applications in which a belt, cable, chain or other lifting mechanism is used to carry load.

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. 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. In applications where these advantages are valued, customers typically choose belts over other forms of power transmission solutions.

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.

Asynchronous Belts. Asynchronous belts are our highest-volume products and are used in a broad range of applications. Asynchronous belts are made of proprietary rubber formulations, textiles and embedded cords for reinforcement. 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 through lower friction losses.

In industrial end markets, asynchronous belts have a wide variety of applications, including use in pump drives, manufacturing lines, HVAC systems, industrial engines, truck, bus and marine engines, forestry and mining equipment and many other applications. Continuously-variable transmission ("CVT") systems 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.

During Fiscal 2018, Gates introduced the Micro-V® platform for engine accessory drive systems. The combination of newly developed material compounds and product design reduces belt weight and results in lower bending stiffness. These improvements enable tighter pulley configurations and reduced drive bending losses as compared to existing belt technologies; lower losses result in 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 teeth molded onto the inner surface 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. Our synchronous belts are made of a flexible polymer over fabric reinforcement and are often built with Kevlar, aramid and carbon fibers.

Examples of industrial applications include use in HVAC systems, food processing and bottling plants, mining and agricultural equipment, automatic doors and robotics. Our synchronous belts are also utilized in personal mobility equipment, 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 and parking brake systems which are present in gasoline-powered, hybrid and electric vehicles.

During Fiscal 2019, Gates launched a new 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 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.

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 to prevent 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 makes and models and typically include belts, tensioners and idlers, and will sometimes also include water pumps, as they are often replaced simultaneously with a timing belt. 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 transportation, diversified industrial, energy, automotive and consumer products. The majority of our Fiscal 2020 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-developed 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 an established channel. 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 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. The majority of our automotive first-fit revenues in power transmission tend to come from emerging markets. These markets generally are higher-growth and result in higher-margin business than our developed regions. Our selective first-fit participation in these markets serves to further strengthen our brand and reinforces the strong position from which we serve the growing base of installed equipment, as the nascent replacement channels continue to develop.

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;
- *Engine systems:* applications in thermal management, turbocharger, air intake and other systems for internal combustion, hybrid and electric passenger and commercial vehicles, as well as in diesel engine systems for reduction of emissions; 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 and quality, are also considered.

Hydraulics. Our hydraulics product line is comprised of hoses, tubing and fittings, as well as assemblies consisting of these products. 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 synthetic rubber and 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.

During Fiscal 2018, Gates introduced a new premium product family consisting of hydraulic hoses that are lighter weight and more flexible. Made with high-performance reinforcement and a 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. During Fiscal 2019, 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. Also in Fiscal 2019, we launched a new, 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.

Engine Hose. Our engine hose products perform a variety of conveyance functions in engine applications in internal combustion, hybrid and electric passenger and commercial vehicles. In internal combustion applications, Gates provides hose solutions for coolant (radiator, heater), air system (turbocharger, intake, vacuum, crankcase ventilation), fuel, oil (transmission oil cooling, power steering) and emissions / Diesel Exhaust Filtration ("DEF") systems. In electric applications, Gates offers hose solutions for the thermal management system regulating the battery, inverter, motor(s) and passenger compartment.

Industrial Hose. Our industrial hoses are capable of transferring a wide range of substances - chemicals, food, beverages, petroleum, fuels, bulk materials, water, steam and air - to meet the requirements of diverse 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 enable hose performance 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 to our customers.

Our fluid power products are used in numerous applications, including off-highway end markets such as construction and agriculture, on-highway end markets such as transportation, diversified industrial, energy, automotive and consumer products. The largest portion of our Fiscal 2020 fluid power revenue came from replacement markets. Within these replacement markets, the majority of our revenue came from industrial applications. Approximately 18% of our Fiscal 2020 fluid power revenue came from products sold into the automotive end market, almost all of which was served through the higher-margin replacement channel.

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 manufacturing and logistics, to everyday consumer applications such as printers, power washers, automatic doors and vacuum cleaners. Virtually every form of transportation, ranging from internal combustion and electric trucks, buses, 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 120 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 commercial capabilities are complemented by our global manufacturing footprint, which generally allows us to manufacture products in close proximity to our customers. 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 improved factory loading and demand leveling, as well as optimization of capital expenditures.

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 2020, approximately 64% of our net sales were generated from replacement channels and 36% 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 70% and 72% of our Fiscal 2020 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 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. In engine systems, we provide application engineering for cam drive and accessory drive applications, and complete all design and manufacturing of the system components in-house. Close interactions between our 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 2020 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 product and application requirements, allowing us to meet our customers' product availability requirements with short lead times. Our global sales and service support team helps reinforce customer and distributor relationships by focusing on end markets and customers.

Manufacturing

We have a global, "in region, for region" manufacturing footprint and regional service model that enable us to operate efficiently and effectively in proximity to our customers. We operate 48 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 enables us 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 120 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, geographic scope, end market and channel. Although each of our markets and product offerings has many competitors, no single competitor competes with us with respect to 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

Applied R&D is important to our businesses and integral to our leading market positions. We have engineering teams in the U.S., Canada, the U.K., Germany, Spain, Poland, Turkey, Japan, China, Brazil, India, Mexico, Korea and Thailand that focus on the introduction of new and improved products with a particular emphasis on energy efficiency, safety, the application of technology to reduce unit and operating costs and improving services to our customers.

As of January 2, 2021, we held more than 2,400 patents and patent applications and 3,200 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 transportation and other costs. As of January 2, 2021, we had not experienced any significant shortages of raw materials and normally do not carry inventories of raw materials in excess of those required to meet our production schedules.

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 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 January 2, 2021, we employed approximately 14,300 full time employees worldwide. Approximately 6,500 of our employees are located in North America, 3,600 in EMEA, 3,600 in Greater China and East Asia & India, and 600 in South America. Approximately 67% of our work force consists of production employees, while approximately 24% of our global workforce was female and 76% male. Of approximately 1,400 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 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.

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 our countermeasure actions across the globe for the novel coronavirus (“COVID-19”) pandemic. In addition to adhering to or exceeding local government mandates and guidance provided by health authorities, we proactively implemented quarantine protocols, social distancing policies, working from home arrangements, travel suspensions, frequent and extensive disinfecting of our workspaces, provision of personal protective equipment, mandatory temperature monitoring and periodic COVID-19 testing at our facilities.

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 a manufacturing incentive program 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.

Diversity, equity and inclusion

The Gates management team is committed to creating and sustaining a diverse workplace that understands and values individual differences across demographics, experiences and perspectives. We want to ensure that collaborative and respectful business practices in a performance-based, supportive environment enable every employee to realize his/her/their career ambitions. To that end, we have formed a Diversity, Equity & Inclusion (“DE&I”) Steering Committee, consisting of executive leadership, which works closely with our DE&I Leadership Council, consisting of representatives of relevant diversity groups across Gates’ businesses, to develop a DE&I strategy consistent with our corporate values while promoting a culture of inclusion, collaboration, tolerance and equal opportunity.

In 2020, to further develop our policies, programs and processes, we began a partnership with Catalyst, a global non-profit organization, to assess both quantitative and qualitative data and to help us ensure success in our initiatives around DE&I. We believe a diverse environment widens our talent pool as we strive to be an employer of choice for people from all backgrounds.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (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. 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.

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

- Conditions in the global and regional economy and the major end markets we serve may materially and adversely affect our business should they deteriorate.
- The COVID-19 pandemic has caused severe disruption in the global economy and may continue to have an adverse impact on our business.
- 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 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.
- We are exposed to exchange rate fluctuations in the international markets in which we operate.
- Terrorist acts, conflicts and wars may materially adversely affect our business.

Summary of Risks Related to Our Business and Industry

- We may not be able to successfully compete with our competitors, which could adversely affect our business.
- Pricing pressures from our customers may materially adversely affect our business.
- We are dependent on the continued operation of our manufacturing facilities and we may need to make investments in new or existing facilities or consolidate facilities to align with our strategies.
- We may not be able to accurately forecast demand or meet significant increases in demand for our products.
- We may not be able to maintain and enhance our strong brand on which we depend.
- We are dependent on market acceptance of new product introductions and innovations for continued revenue growth.
- We have taken, and continue to take, cost-reduction 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.
- Longer lives of products used in our end markets may adversely affect demand for some of our replacement products.
- The development of the replacement market in emerging markets may limit our ability to grow in those markets.
- We may acquire businesses or assets that we may not be able to successfully integrate.
- We have investments in joint ventures that limit our ability to manage third-party risks associated with these projects.
- We are subject to liabilities with respect to businesses that we have divested in the past.
- Our insurance may not fully cover all future losses we may incur.
- If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, it may have a material adverse effect on our business.
- The loss or financial instability of any significant customer could adversely affect our business.

Summary of Risks Related to Legal and Regulatory Matters

- We are subject to risks from litigation, legal and regulatory proceedings and obligations.
- Our products could infringe on the intellectual property of others, adversely affecting our business.
- Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.
- Failure to develop, obtain, enforce and protect intellectual property rights could adversely affect our business.
- We may not be able to protect or enforce our intellectual property rights in all jurisdictions throughout the world.
- We may be subject to recalls or product liability claims, or may incur costs related to product warranties.
- 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, which could materially adversely affect our business, financial condition and results of operations.
- Existing or new laws and regulations may prohibit, restrict or burden the sale of aftermarket products.
- Existing or new laws and regulations regarding environmental, health and safety matters may prohibit, burden, restrict or make significantly more costly the sale of our products.

Summary of Risks Related to Cybersecurity and Information Systems

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

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.
- 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 additional risks specific to ownership of our ordinary shares. These risks include those related to being a “controlled company” within the meaning of the rules of the New York Stock Exchange (“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

Conditions in the global and regional economy and the major end markets we serve may materially and adversely affect our business should they deteriorate.

Our business and operating results have been, and will continue to be, affected by worldwide and regional economic conditions, including conditions in the end markets we serve. The level of demand for our products depends, in part, on the general economic conditions that exist in our served end markets. A substantial portion of our revenues are derived from customers in cyclical industries that typically are adversely affected by downward economic cycles. For example, in Fiscal 2019, a downturn in the short-cycle end markets, including sharp declines in agriculture and general industrial end markets, significantly impacted our business. Further, our historical results have been, and remain, highly correlated to global industrial activity and utilization and decreases in such activity or utilization may continue to impact our business, financial condition and results of operations.

During such downturns, our customers may experience deterioration of their businesses, cash flow shortages or difficulty obtaining financing. As a result, the demand for our products may be significantly reduced and existing or potential customers may delay or cancel plans to purchase our products and may not be able to fulfill their obligations to us in a timely fashion. Further, our vendors may experience similar conditions, which may impact their ability to fulfill their obligations to us.

We cannot predict the timing, strength or duration of any economic recovery, including in the short-cycle end markets, or a downturn globally or within our end markets. If conditions in the global economy or in the regions and major end markets that we serve deteriorate, demand for our products may decline and our results of operations, financial position and cash flows could be materially adversely affected.

The COVID-19 pandemic has caused severe disruption in the global economy, and may continue to have an adverse impact on our business.

The scale and scope of the COVID-19 pandemic may heighten the potential adverse effects on our business, operating results, cash flows and/or financial condition described in these risk factors or result in new risks, due to the impact of:

- unfavorable economic conditions on our customers. We are unable to predict the degree to which the pandemic will impact our customers' businesses, but it has resulted in and could continue to result in customers reducing orders, delaying projects, deferring capital equipment purchases, making late payments or being unable to make payments. Further, travel restrictions and social distancing has reduced or eliminated, and may continue to reduce or eliminate, in-person sales meetings, attendance at trade shows and industry events. As a result, our sales and selling activities have been and may continue to be adversely impacted;
- a significant disruption in service within our operations, among our key suppliers and supply chains, or other third parties. We have experienced instances of suppliers temporarily closing operations, delaying order fulfillment or limiting production due to the pandemic. 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;
- facility closures or disruptions. We manufacture and provide essential products to a variety of customers around the globe and intend to continue providing our products to the extent possible. We have experienced temporary disruptions at certain facilities and may continue to experience these due to regulatory shut-downs or other quarantine measures or illness, which could place constraints on our ability to produce our products and meet customer demand;
- challenges in product delivery. We have faced, and may continue to face, increased delays in the delivery of our product to our customers as a result of shipping delays, port closures and congestion, increased border controls and other transportation and shipping constraints, which may increase our costs of doing business and affect our ability to timely meet customer demand;
- compliance with substantial government regulation, including new laws or regulations or changes in existing laws or regulations, which laws or regulations may vary significantly by jurisdiction;

- fluctuations in equity market prices, interest rates and credit spreads limiting our ability to raise or deploy capital and affecting our overall liquidity. The Company continues to generate cash from operations and believes it has adequate liquidity and capital resources at this time; however, unanticipated consequences of the pandemic and resulting economic uncertainty could adversely affect our ability to raise additional funds when and as needed or lead to higher costs of borrowing;
- cyberattacks or other privacy or data security incidents. The Company has experienced and expects to continue to experience an increase in phishing and hacking attempts and other fraudulent schemes due to the pandemic. Such additional cyberattacks increase the Company's risk of security breaches, and mitigation efforts require an increased investment of time and resources;
- changes and challenges to our workforce, including decreased worker productivity due to remote working arrangements, increased medical, emergency or other leave, redirection of management's focus on managing and mitigating the impacts of the pandemic, the ability to meet staffing needs in our various facilities and delays in implementation of our organizational efficiency and business continuity plans; and
- delays in responsiveness by governments and other third parties in other matters arising in the ordinary course of business due to their prioritization of matters relating to COVID-19.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, including any variants, the development, distribution and effectiveness of vaccines or other medical advances, the extent and effectiveness of containment actions, the impact of labor market interruptions, the impact of government interventions, the potential of a longer term economic slowdown or recession and the impact of these and other factors on our employees, customers, suppliers and partners. Such impact on our business, operating results, cash flows and/or financial condition is uncertain, could be material and could result in asset impairment charges, including impairments of property, plant and equipment, goodwill or other intangible assets.

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.

One of our key strategies is to capitalize on our global commercial reach, and a substantial portion of our operations are conducted and located outside the U.S. For Fiscal 2020, approximately 62% 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 120 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:

- imposition of new or additional tariffs or other trade restrictions or embargoes, as well as import and export licensing and control requirements;
- political, social or economic instability, civil unrest, natural disasters, public health crises, war or terrorism that may disrupt economic activities in affected countries;
- exchange rate fluctuations, currency restructurings and hyperinflation or deflation in the countries in which we operate;
- imposition of currency restrictions and limitations on repatriation of earnings;
- the complexities of operating within multiple tax jurisdictions;
- partial or total expropriation by local, state or national governments;
- uncertainties as to local laws regarding, and enforcement of, contract and intellectual property rights;
- 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 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, the Middle East and Africa, are generally more economically and politically volatile and as a result, our operations in these regions could be subject to more significant fluctuations in sales and operating income. 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.

The U.S. administration has publicly supported certain potential tax and trade proposals, modifications to international trade policy and other changes which have and may continue to affect U.S. trade relations with other countries, particularly China. Our industry has been impacted by the ongoing uncertainty surrounding tariffs and international trade relations generally, and it is difficult for us to predict the impact future trade measures may have on our business and results of operations in the future.

In addition, economic and political uncertainty arose out of the June 23, 2016 vote in the U.K. that resulted in the U.K.'s exit from the European Union (the "E.U."), commonly referred to as "Brexit," on January 31, 2020. In order to negotiate a trade agreement and other aspects of their future relationship, the E.U. and the U.K. agreed to participate in a transition period that expired on December 31, 2020. On December 24, 2020, the E.U. and the U.K. announced they had entered into a post-Brexit deal on certain aspects of trade and other strategic and political issues. We are currently in the process of reviewing the potential impact of the new Brexit trade deal on our business and operations. In addition, we do not know if the E.U. and the U.K. will succeed in negotiating certain other terms not yet addressed or covered by the new Brexit trade deal. Accordingly, we cannot yet predict the future implications of Brexit or whether it could disrupt our operations, increase our cost of doing business or otherwise adversely affect our financial condition or results of operations.

Additionally, concerns persist regarding the debt burden of certain European countries and the ability of these countries to meet future financial obligations, as well as concerns regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances of individual euro-area countries. If a country within the euro area were to default on its debt or withdraw from the euro currency, or if the euro were to be dissolved entirely, the impact on markets around the world, and on our global business, could be immediate and material. Such a development could cause financial and capital markets within and outside Europe to constrict, thereby negatively impacting our ability to finance our business, and also could cause a substantial reduction in consumer confidence and spending that could negatively impact sales.

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 beyond what we can anticipate and could have a material adverse effect on our financial condition and results of operations.

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

We purchase our energy, steel, aluminum, rubber and 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 for energy, metal alloys, polymers and certain other of our raw materials have fluctuated significantly. While we strive to avoid this risk by using price escalation mechanisms with respect to our raw materials in certain of our customer contracts, and we also seek to offset our increased costs with gains achieved through operational efficiencies, 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 operational efficiencies are not achieved, 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, can also significantly impact our results of operations in any given period, such as the destocking we experienced in both the automotive and industrial replacement channels during Fiscal 2019. In addition, the consolidation of channel partners and customers in certain of our end markets could adversely impact our profitability.

We are exposed to exchange rate fluctuations in the international markets in which we operate.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies. We are subject to currency exchange rate risk to the extent that our costs may be denominated in currencies other than those in which we earn and report revenues and vice versa. In addition, a decrease in the value of any of these currencies relative to the U.S. dollar could reduce our profits from non-U.S. operations and the translated value of the net assets of our non-U.S. operations when reported in U.S. dollars in our consolidated financial statements. Movements in average currency exchange rates in the future could have a negative impact on our business, financial condition or results of operations as reported in U.S. dollars. Fluctuations in currencies may also make it more difficult to perform period-to-period comparisons of our reported results of operations.

We anticipate that there will be instances in which costs and revenues will not be exactly matched with respect to currency denomination. As a result, to the extent we continue to expand geographically, we expect that increasing portions of our revenues, costs, assets and liabilities will be subject to fluctuations in foreign currency valuations. We may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. Further, the markets in which we operate could restrict the removal or conversion of the local or foreign currency, resulting in our inability to hedge against these risks.

We also face risks arising from the imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation. Actions of this nature, if they occur or continue for significant periods of time, could have an adverse effect on our results of operations and financial condition in any given period.

Terrorist acts, conflicts and wars may materially adversely affect our business.

As we have a large international footprint, we are subject to increased risk of damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers or customers due to terrorist acts, conflicts and wars, wherever located around the world. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars have created many economic and political uncertainties. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to deliver products to our customers or to receive raw materials from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions, and thereby materially adversely affect our business, financial condition, results of operations and cash flows.

Risks Related to Our Business and Industry

We may not be able to successfully compete with our competitors, which could adversely affect our business.

We are subject to competition from other producers of products similar to ours. We compete on a number of factors, including product performance, quality, value, product availability, brand recognition, customer service, innovation and technology. Our customers often demand delivery of our products on a tight time schedule and in a number of geographic markets. If our quality of service declines or we cannot meet the demands of our customers, they may utilize the services or products of our competitors. Our competitors include manufacturers that may be better capitalized, may have a more extensive low-cost sourcing strategy and presence in low-cost regions, or may receive significant governmental support and, as a result, may be able to offer more aggressive pricing. Our competitors also may develop products that are superior to our products, may develop more efficient or effective methods of providing products and services, or may adapt more quickly than we do to new technologies or evolving customer requirements. If we are unable to continue providing technologically superior or better quality products, timely delivery and competitive pricing, our ability to compete could be harmed and we could lose customers or market share.

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 introduction, those price reductions may have a material adverse effect on our results of operations.

We are dependent on the continued operation of our manufacturing facilities and we may need to make investments in new or existing facilities or consolidate facilities to align with our strategies.

While we are not heavily dependent on any single manufacturing facility, major disruptions at a number of our manufacturing facilities, due to labor unrest, adverse weather, natural disasters, terrorist attacks, significant mechanical failure of our facilities, or other catastrophic event, could result in interruption of our business, a potential loss of customers and sales, or significantly increased operating costs.

In addition, we have in the past and may in the future need to make investments in new or existing manufacturing facilities or to consolidate manufacturing facilities to adapt our production capacity to changing market conditions and to align with our growth and efficiency strategies. The costs of such investments or consolidation efforts may be significant and we may not realize the expected benefits on our anticipated timeframe or at all, which 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 may not be able to maintain and enhance our strong brand on which we depend.

Our brand has worldwide recognition and our success depends on 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. 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.

We are dependent on market acceptance of new product introductions and product innovations for continued revenue growth.

The markets in which we operate are subject to technological change. Our long-term operating results depend substantially 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 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.

We have taken, and continue to take, cost-reduction 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 actions in all of our businesses and have discontinued product lines, divested non-core businesses, consolidated manufacturing operations and reduced our employee population in some locations. The impact of these cost-reduction 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 depending on our ability to successfully complete these efforts. In connection with the implementation and maintenance of our cost reduction 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.

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.

The development of the replacement market in emerging markets may limit our ability to grow in those markets.

In emerging markets such as China, India, Eastern Europe and Russia, 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 acquire businesses or assets that we may not be able to successfully integrate.

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

We may not be able to effectively integrate acquisitions or successfully implement appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these acquisitions. As a result, we may not be able to recoup our investment in such acquisitions or achieve the economic benefits that we anticipate from such acquisitions. Our efforts to integrate these 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 and the diversion of management's attention. Furthermore:

- the key personnel of the acquired company may decide not to work for us;
- customers of the acquired company may decide not to purchase products from us;
- suppliers of the acquired company may decide not to sell products to us;
- the markets may reject the acquired technologies, or they may not integrate with our existing technologies as expected;
- we may experience business disruptions as a result of information technology systems conversions;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, and financial reporting;
- we may be held liable for environmental, tax or other risks and liabilities as a result of our acquisitions, some of which we may not have discovered during our due diligence;
- we may intentionally assume the liabilities of the companies we acquire, which could result in material adverse effects on our business;
- our existing business may be disrupted or receive insufficient management attention;
- we may not be able to realize the cost savings or other financial benefits we anticipated, either in the amount or in the time frame that we expect; and
- we may incur debt or issue equity securities to pay for a future acquisition, the issuance of which could involve the imposition of restrictive covenants or be dilutive to our existing shareholders.

These impacts and any delays or difficulties encountered in connection with the integration of these businesses or assets could negatively impact our business and results of operations.

In addition, certain of the businesses that we have acquired and may acquire have unaudited financial statements that have been prepared by the management of such companies and have not been independently reviewed or audited. Such financial statements could be materially different if audited. Further, we may not continue to acquire businesses at valuations consistent with our prior acquisitions or we may not complete future acquisitions at all. There may not be attractive acquisition opportunities at reasonable prices, financing may not be available, or we may not be able to successfully integrate such acquired businesses into our existing operations. In addition, our results of operations from these acquisitions could, in the future, result in impairment charges for any of our intangible assets, including goodwill, or other long-lived assets, particularly if economic conditions worsen unexpectedly. These changes could materially negatively affect our business, results of operations or financial condition.

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

We have investments in joint ventures which 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.

We are subject to liabilities with respect to businesses that we have divested in the past.

In recent years, we have divested a number of businesses. With respect to some of these former businesses, we have contractually agreed to indemnify the buyer against liabilities arising prior to the divestiture, including lawsuits, tax liabilities, product liability claims or environmental matters. Even without ongoing contractual indemnification obligations, we could be exposed to liabilities arising out of such divestitures. As a result of these types of arrangements, conditions outside our control could materially adversely affect our future financial results.

Our insurance may not fully cover all future losses we may incur.

Manufacturers of products such as ours are subject to inherent risks. We maintain an amount of insurance protection that we consider adequate, but we cannot provide any assurance that our insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which we may be subject. Specifically, our insurance may not be sufficient to replace facilities or equipment that are damaged in part or in full. Damages or third-party claims for which we are not fully insured could adversely affect our financial condition and results of operations. Further, due to rising insurance costs and changes in the insurance markets, insurance coverage may not continue to be available at all or at rates or on terms similar to those presently available. Additionally, our insurance may subject us to significant deductibles, self-insured retentions, retrospectively rated premiums or similar costs. Any losses not covered by insurance could have a material adverse effect on us. We typically purchase business interruption insurance for our facilities. However, if we have a stoppage, our insurance policies may not cover every contingency and may not be sufficient to cover all of our lost revenues. In the future, we may be unable to purchase sufficient business interruption insurance at desirable costs.

We supply products to industries that are subject to inherent risks, including equipment defects, malfunctions and failures, and natural disasters, which could result in unforeseen and damaging events. These risks may expose us, as an equipment operator and supplier, to liability for personal injury, wrongful death, property damage, pollution and/or other environmental damage. The insurance we carry against many of these risks may not be adequate to cover our claims or losses. Further, insurance covering the risks we expect to face or in the amounts we desire may not be available in the future or, if available, the premiums may not be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur liability at a time when we were not able to obtain liability insurance, our business, results of operations, cash flows and financial condition could be negatively impacted. If our customers suffer damages as a result of the occurrence of such events, they may reduce their business with us.

If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, it may have a material adverse effect on our business.

Our facilities, supply chains, distribution systems and information technology systems are subject to catastrophic loss due to fire, flood, earthquake, hurricane, public health crises such as the COVID-19 pandemic, or other natural or man-made disasters. If any of these facilities, supply chains or systems were to experience a catastrophic loss or ongoing closure or disruption, it could negatively impact our operations, delay production and shipments, result in defective products or services, damage customer relationships and our reputation, result in legal exposure and large repair or 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.

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 2020, our top ten customers accounted for approximately 24% of our consolidated net sales and accounted for approximately 35% of our trade accounts receivable balance as of January 2, 2021, and our largest customer accounted for approximately 9% and 17% of our Fiscal 2020 consolidated net sales and trade accounts receivable balance as of January 2, 2021, 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.

Risks Related to Legal and Regulatory Matters

We are subject to risks from litigation, legal and regulatory proceedings and obligations.

We face an inherent business risk of exposure to various types of claims, lawsuits and proceedings. We are involved in various 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 could have a material adverse effect on our business, financial condition and results of operations.

Our products could infringe on the intellectual property of others, adversely affecting our business.

Third parties may assert infringement or other misappropriation claims against us based on their patents 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.

Failure to adequately protect or enforce our intellectual property rights against counterfeiting activities could adversely affect our business.

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 to encounter counterfeiting of 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. If we are unsuccessful in challenging such products on the basis of trademark or other intellectual property infringement, continued sales of such imitating products may adversely affect market share and impact customer perceptions and demand.

Failure to develop, obtain, enforce and protect intellectual property rights could adversely affect 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. 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.

However, we may not be able to obtain patents or other intellectual property rights in our new technologies and inventions or, if we do, 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.

Even if we do obtain intellectual property rights, our efforts to enforce our intellectual property rights against infringers may not prove successful and will likely be time consuming and expensive. Competitors and other third parties may also challenge the ownership, validity, and/or enforceability of our patents or other intellectual property rights.

To the extent we do 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 fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows.

We will not seek to protect our intellectual property rights in all jurisdictions throughout the world and we may not be able to adequately enforce our intellectual property rights even in the jurisdictions where we seek protection.

Although we rely on U.S. and foreign intellectual property rights, filing, prosecuting, 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.

Further, 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. Creation and enforcement of intellectual property rights is a relatively recent development in much of the world, and so some time may be necessary to realize reliable intellectual property systems across all markets and jurisdictions, if this occurs at all.

Competitors may 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.

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 product failure results in any 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 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. It cannot be assured that costs associated with providing product warranties will not be material.

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, which could materially adversely affect our business, financial condition and results of operations.

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. The FCPA and these other laws generally prohibit employees and intermediaries from bribing or making other prohibited payments to foreign officials or other persons to obtain or retain business or gain some other business advantage. We operate in a number of jurisdictions that pose a high risk of potential FCPA or other anti-corruption violations, and we participate in joint ventures and relationships with third parties whose actions could potentially subject us to liability under the FCPA or other anti-corruption laws. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

We are also 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 offences for failure to prevent the facilitation of tax evasion pursuant to the Criminal Finances Act 2017 ("FTP offences"). The FTP offences impose criminal liability on a company where it has failed to prevent the criminal facilitation of tax evasion by a person associated with the company.

We have instituted policies, procedures and ongoing training of certain employees with regard to business ethics, designed to ensure that we and our employees comply with the FCPA, other anticorruption laws, Trade Control Laws and the Criminal Finances Act 2017. However, there is no assurance that our efforts have been and will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the FCPA, or other legal requirements. If we are not in compliance with the FCPA, other anti-corruption laws, Trade Control Laws or the Criminal Finances Act 2017, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have a material adverse impact on our business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of the FCPA, other anti-corruption laws or the Criminal Finances Act 2017 by U.S. or foreign authorities could also have a material adverse impact on our reputation, business, financial condition and results of operations.

Existing or new laws and regulations may prohibit, restrict or burden the sale of aftermarket products.

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.

Existing or new laws and regulations regarding environmental, health and safety 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 protection around the world. HSE laws vary by jurisdiction but generally govern air emissions, wastewater discharges, material handling and transportation, waste management and disposal, substances in products, and workplace health and safety, as well as the investigation and clean-up of contaminated sites. Failure to comply with HSE 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 laws have become increasingly stringent and stricter interpretation or enforcement of new and existing HSE 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 and other greenhouse gases ("GHGs") in an effort to minimize the effect on climate change have the potential to directly impact the price of the energy and raw materials we purchase. In addition, GHGs regulations could 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 HSE laws beyond manufacturing operations to restrict specific chemical substances in our products or impose labeling and other requirements, such as California's Safe Drinking Water and Toxic Enforcement Act ("Proposition 65"), or European Union's Registration, Evaluation, Authorisation, and Restriction of Chemical Substances ("REACH") Directive, 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 HSE laws, 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.

Risks Related to Cybersecurity and Information Systems

Cyber-security vulnerabilities, threats and more sophisticated and targeted computer crime 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, as well as cyber-security failures resulting from human error 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' 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.

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 United States 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"), which greatly increases the jurisdictional reach of European Union law and adds a broad array of requirements for handling personal data, including the public disclosure of significant data breaches, became effective in May 2018. Other countries 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.

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.

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 of 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.

As of January 2, 2021, we had approximately 14,700 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 insure that future issues with our labor unions will be resolved favorably or that we will not encounter future strikes, work stoppages, or other types of conflicts with labor unions or our employees. Increased unionization of our workforce, 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. Any of these factors may have a materially adverse effect on us or may limit our flexibility in managing our workforce. In addition, many of our customers and vendors have unionized workforces. If one or more of our customers or vendors experience a material work stoppage, it could similarly have a material adverse effect on our business, results of operations and financial condition.

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 January 2, 2021, the unfunded amount of our defined benefit pension plans on a worldwide basis was $62.9 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, 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 Fiscal 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.

Changes in tax laws could result in additional tax liabilities.

Changes in tax laws can and do occur. For example, in 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which is complex and continues to be further clarified with supplemental guidance. 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. The proposal seeks to allocate a greater share of taxing rights to countries where consumers are located, regardless of the physical presence of a business, and by implementing a global minimum tax. Such OECD projects are likely to result in further changes to the international tax regime which could adversely impact our effective tax rate and tax liabilities.

Further, the U.K.'s decision to leave the E.U. may result in changes to the interpretation and application of tax laws and regulations including changes to the interpretations of double tax treaties which could lead to significant changes in the U.K. tax burden of the Company. In addition, it may become more difficult for cash to be repatriated to U.K. companies without the application of withholding tax and the tax treatment of the interest on any intra-group loans may be impacted by these changes, both resulting in significant changes to the tax burden of the Company.

Any such 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 were concurrently resident of 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. Should we be treated as resident in a country or jurisdiction other than the U.K., we could be subject to taxation in that country or jurisdiction on our worldwide income and may be required to comply with a number of material and formal tax obligations, including withholding tax and/or reporting obligations provided under the relevant tax law, which could result in additional costs and expenses. Further, we may not qualify for benefits under the tax treaties entered into between the U.K. and other countries. 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.

We are highly leveraged. As of January 2, 2021, the total principal amount of our debt was $2,720.8 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.

Interest rates may increase in the future. As a result, interest rates on our revolving credit facility or other variable rate debt offerings could be higher or lower than current levels. As of January 2, 2021, after taking into account our interest rate derivatives, $762.9 million (equivalent), or 28.0%, 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 $2,152.6 million of variable rate indebtedness that uses LIBOR or EURIBOR 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. In November 2020, the Board of Governors of the U.S. Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation issued a joint statement stating that the administrator of LIBOR will consult on its intention to cease publicizing "one week" and "two month" LIBOR following the publication at the end of 2021, but the remaining LIBOR periods would only cease following the publication at the end of June 2023 to allow a greater number of existing contracts to mature prior to any disruption in LIBOR. However, there is no certainty that financial institutions will enter into new contracts, or agree to modify terms of existing contracts, utilizing LIBOR after 2021. We therefore may need to renegotiate certain of our loan agreements that extend past 2021, which could require us to incur significant expense and may subject us to disputes or litigation over the appropriateness or comparability to LIBOR or EURIBOR of the replacement reference rates. At this time, it is not possible to predict how markets will respond in coming years to alternative reference rates as replacements to the current interbank 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 us and our subsidiaries 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 84.7% of our outstanding ordinary shares as of January 2, 2021. 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 or any director who is not employed by us or his or her 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, rely on and intend to continue to 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 not required to have a board that is composed of a majority of "independent directors," as defined under the rules of such exchange;
- are not required to have a compensation committee that is composed entirely of independent directors; and
- are not required to have a nominating and corporate governance committee that is composed entirely of independent directors.

Because we utilize certain of these exemptions, our compensation, nominating and governance committees are not comprised entirely of independent directors and accordingly, 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 2020, the per share trading price of our ordinary shares fluctuated from a low of $5.42 to a high of $14.30. 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 we participate in 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 and 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 12,500,000 ordinary shares for issuance under our Omnibus Incentive Plan. 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 2019, the SEC declared effective a registration statement on Form S-3 that, among other things, registers (i) up to a maximum aggregate offering price of $1,000,000,000 of our securities, and (ii) the resale of 243,985,383 shares held by our Sponsor, which represented approximately 83.9% of our outstanding ordinary shares as of January 2, 2021. These 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.

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 and with, or having 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 attaching thereto 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 senior management.

There is doubt as to whether English courts would enforce certain civil liabilities under U.S. securities laws in original actions or 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 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 has 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.

On completion of the IPO, as noted below, the new ordinary shares were issued to a nominee for The Depository Trust Company ("DTC") and corresponding book-entry interests credited in the facilities of DTC. On the basis of current law, no charges to U.K. stamp duty or stamp duty reserve tax ("SDRT") are expected to arise on the issue of the ordinary shares into DTC's facilities or on transfers of book-entry interests in ordinary shares within DTC's facilities and investors are strongly encouraged to hold ordinary shares in book-entry form through the facilities of DTC.

A transfer of title in the ordinary shares from within the DTC system to a purchaser out of DTC and any subsequent transfers that occur entirely outside the DTC system, will attract a charge to stamp duty at a rate of 0.5% of any consideration, 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, the redeposit will attract stamp duty or SDRT at the rate of 1.5% to be paid by the transferor.

We have put in place arrangements to require that our ordinary shares held in certificated form cannot be transferred into the DTC system until the transferor of the ordinary shares has first delivered the ordinary shares to a depositary specified by us so that stamp duty (and/or SDRT) may be collected in connection with the initial delivery to the depositary. Any such ordinary shares will be evidenced by a receipt issued by the depositary. Before the transfer can be registered in our books, the transferor will also be required to put funds in the depositary to settle the resultant liability to stamp duty (and/or SDRT), which will be charged at a rate of 1.5% of the value of the shares.

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 (including changes as a result of the U.K.'s decision to leave the E.U.) changes 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 have a presence in over 120 locations in 30 countries across the Americas, Europe, Asia and Australia. Our corporate operations center is located in Denver, Colorado, and we also maintain regional headquarters in Denver, Colorado, Luxembourg, Shanghai, China and Singapore.

As of January 2, 2021, the carrying amount of our property, plant and equipment was $705.0 million of which $4.1 million related to assets held under finance leases. This compares to a carrying amount of our property, plant and equipment of $727.9 million as of December 28, 2019, of which $2.8 million related to assets held under finance leases.

Included in property, plant and equipment are land and buildings with a total carrying amount of $247.3 million as of January 2, 2021, compared to $249.2 million as of December 28, 2019, representing manufacturing facilities, service centers, distribution centers and offices located throughout the world, predominantly in North America. As of January 2, 2021, Gates owned 33 of these facilities, including 24 manufacturing or service centers.

Additionally, we lease approximately 101 locations. These leased locations included 24 manufacturing or service centers as of January 2, 2021. 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 5, 2021, 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 recordholders, 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

None.

Item 6.

The selected financial data previously required by Item 301 of Regulation S-K has been omitted in reliance on SEC Release No. 33-10890.

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this annual report. This discussion and analysis addresses Fiscal 2020 and Fiscal 2019. For discussion and analysis of our financial condition and results of operations for Fiscal 2019 and Fiscal 2018, see the 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 2019, 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, which include construction, agriculture, energy, automotive, transportation, general industrial, consumer products and many others. 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 for over a century 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 a natural replacement cycle that drives 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 2020, sales into replacement channels accounted for approximately 64% 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 2020, sales into first-fit channels accounted for approximately 36% 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. Among our automotive first-fit customers, a majority of our net sales are to emerging market customers, where we believe our first-fit presence provides us with a strategic advantage in developing those markets and ultimately increasing our higher margin replacement channel sales. First-fit automotive sales in developed markets represented approximately 7% of our total net sales for Fiscal 2020, with first-fit automotive sales in North America contributing less than 3% of total net sales. As a result of the foregoing factors, we do not believe that our historical consolidated net sales have had any meaningful correlation to global automotive production but are positively correlated to industrial production.

Our recently completed manufacturing footprint investments and other productivity improvements in recent years have helped to position us to continue to make progress on our restructuring program, which is primarily intended to optimize our manufacturing and distribution footprint over the mid-term by removing structural fixed costs and, to a lesser degree, streamlining our selling, general and administrative ("SG&A") back-office functions. We anticipate that most of the costs associated with these actions will be incurred during 2020 and 2021. Some of these costs will, in accordance with U.S. GAAP, be classified in cost of sales, negatively impacting gross margin, but due to their nature and impact of hindering comparison of the performance of our businesses on a period-over-period basis or with other businesses, they will be excluded from Adjusted EBITDA, consistent with the treatment of similar costs in the current and prior years.

Impact of COVID-19 Pandemic

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, which has continued into 2021, although to a lessening degree as it impacts our business, as governments, companies and communities implemented strict measures to minimize the spread of COVID-19. We are 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.

In early February 2020, as our business in China was being impacted, we mobilized a centralized crisis response team that developed and is tactically engaged in the implementation of our countermeasure actions across our global footprint. We are adhering to local government mandates and guidance provided by health authorities and have proactively implemented quarantine protocols, social distancing policies, working from home arrangements, travel suspensions, frequent and extensive disinfecting of our workspaces, provision of personal protective equipment, and mandatory temperature monitoring at our facilities. We expect to continue implementing these measures and 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 disruptions to date, certain Gates suppliers have, or may in the future, temporarily close operations, delay order fulfillment or limit production due to the pandemic. 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.

Gates employs an in-region, for-region manufacturing strategy, under which local operations primarily support local demand. In those cases where local production supports demand in other regions, contingency plans have been activated as appropriate. In addition to the handful of plants that were temporarily closed by government mandates, 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. We may continue to experience these production disruptions, which could place constraints on our ability to produce our products and meet customer demand or increase our costs. Of these temporary closures in the first half of 2020, the most significant for us was in Greater China, where we closed all of our production facilities for approximately three weeks, and in India, where our facilities were closed for approximately six weeks. We have since safely returned these plants to more normalized capacity. Our two largest regions of Europe and North America did not begin to see an impact from COVID-19 until late March 2020. With large portions of the economies in these regions having been effectively shut down during April 2020, we experienced significant year-over-year revenue declines most sharply in that month, with significant month-over-month improvements in subsequent months.

As shelter-in-place requirements eased in various jurisdictions, unfortunately accompanied in some cases by a resurgence in cases, there has been continued progress in the fight against COVID-19. We have seen sequential improvements in both the third and fourth quarters of 2020 compared to the second quarter of 2020, and we currently expect the first quarter of 2021 to show further improvement compared to the fourth quarter. During this crisis, we have maintained our ability to respond to demand improvements, and while we have limited new capital expenditures, we continue to fund key initiatives, which we believe will serve us well as our end markets continue to recover.

We have strength and flexibility in our liquidity position, which includes committed borrowing headroom of $386.7 million under our lines of credit (none of which are currently expected to be drawn in the foreseeable future), in addition to cash balances of $521.4 million as of January 2, 2021. In addition, our business also has a demonstrated ability to generate free cash flow even in challenging environments.

As a result of the unpredictable and evolving impact of the pandemic and measures being taken around the world to combat its spread, the timing and trajectory of the recovery remain unclear at this time, and the adverse impact of the pandemic on Gates' operations may continue to be material.

Despite this highly uncertain environment, our early experience in China, and more recent experience in North America and EMEA, has helped frame our response to this crisis and our focus in 2021 will continue to be on:

- safely supporting our employees, customers and the communities in which we operate;
- actively managing what we can control in terms of our supply chains and operations;
- managing our compressible costs to the prevailing demand conditions by tightly controlling discretionary spending; and
- funding our key growth initiatives to enhance our differentiation in the market and allow us to emerge from this downturn in an even stronger competitive position.

Results for the year ended January 2, 2021 compared to the results for the year ended December 28, 2019

Summary Gates Performance

	For the year ended	
(dollars in millions)	January 2, 2021	December 28, 2019
Net sales	$ 2,793.0	$ 3,087.1
Cost of sales	1,758.3	1,944.6
Gross profit	**1,034.7**	**1,142.5**
Selling, general and administrative expenses	776.9	777.3
Transaction-related expenses	5.2	2.6
Asset impairments	5.2	0.7
Restructuring expenses	37.3	6.0
Other operating (income) expenses	(1.0)	9.1
Operating income from continuing operations	**211.1**	**346.8**
Interest expense	154.3	157.8
Other income	(14.2)	(9.8)
Income from continuing operations before taxes	**71.0**	**198.8**
Income tax benefit	(19.3)	(495.9)
Net income from continuing operations	**$ 90.3**	**$ 694.7**
Adjusted EBITDA(1)	$ 506.6	$ 611.0
Adjusted EBITDA margin	18.1 %	19.8 %

(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 2020 were $2,793.0 million, compared to $3,087.1 million during the prior year, a decrease of 9.5%, or $294.1 million. Our net sales for Fiscal 2020 were adversely impacted by movements in average currency exchange rates of $34.5 million compared to the prior year period, due principally to the strengthening of the U.S. dollar against a number of currencies, in particular the Brazilian Real and Mexican Peso. Excluding this impact, core sales decreased by $259.6 million, or 8.4%, during Fiscal 2020 compared to the prior year, driven primarily by lower volumes, offset partially by a benefit of $16.1 million from favorable pricing.

Core sales in our Power Transmission and Fluid Power businesses declined by 6.5% and 11.6%, respectively, during Fiscal 2020. This decline in core sales was driven by the impacts from the COVID-19 pandemic which adversely affected sales to customers across all of our channels, particularly the industrial replacement channel, which declined by $91.1 million compared to the prior year. Globally, sales to our industrial customers declined by $153.3 million on a core basis, compared to a $106.3 million decline in core sales to our automotive customers, compared to the prior year. Most of the industrial decline came from North America, which decreased by $111.0 million during Fiscal 2020, compared to the prior year, driven by lower volumes in the construction, energy and heavy duty vehicle end markets. Industrial sales in EMEA decreased by 10.6% compared to the prior year, buoyed by strong sales in the second half, but reflecting the weakness in the construction end market, and a decline of 4.3% in the general industrial end market. Industrial sales in Greater China grew by $19.8 million in Fiscal 2020 compared to the prior year, driven almost exclusively by sales to our industrial first-fit customers, primarily in the general industrial and heavy duty vehicle end markets.

Global sales to the automotive end markets declined by 7.6% during Fiscal 2020 compared to the prior year, driven by declines in North America, Greater China and East Asia & India. In all of our regions, the decline was focused in the first half of the year and we have seen steady recovery throughout the second half of 2020 with sales broadly flat in the third quarter and growing by 8.7% in the fourth quarter, compared to the prior year periods.

Cost of sales

Cost of sales for Fiscal 2020 was $1,758.3 million, compared to $1,944.6 million for the prior year, a decrease of 9.6%, or $186.3 million. The decrease was driven primarily by lower volumes, a function of lower demand resulting from the COVID-19 pandemic. Favorable movements in average currency exchange rates contributed a further $20.6 million to the decrease in cost of sales during Fiscal 2020 compared to the prior year.

Gross profit

Gross profit for Fiscal 2020 was $1,034.7 million, down 9.4% from $1,142.5 million for the prior year. This change was driven primarily by lower volumes, offset partially by a benefit from favorable pricing of $16.1 million.

Our gross profit margin for Fiscal 2020 was unchanged from the prior year at 37.0%.

Selling, general and administrative expenses

SG&A expenses for Fiscal 2020 were $776.9 million compared to $777.3 million for the prior year. This decrease of $0.4 million was driven primarily by higher labor costs of $24.0 million (including higher severance), offset by savings on most other cost categories, primarily travel, entertainment and marketing, and variable costs related to decreased volumes.

Transaction-related expenses

Transaction-related expenses of $5.2 million were incurred during Fiscal 2020, related primarily to payments made on resolution of certain contingencies that affected the purchase price paid by Blackstone upon acquiring Gates in July 2014. Transaction-related expenses of $2.6 million were incurred during the prior year period, related primarily to exploratory merger and acquisition activity, as well as to corporate filings and transactions to provide the Company with flexibility for future raising of capital and debt, share buybacks and dividend payments. These expenses were offset partially by the release of an accrual from a prior year period acquisition.

Restructuring expenses

As described further under “Business Trends” above, we have accelerated and expanded upon 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 a lesser degree, streamlining our SG&A back-office functions.

Restructuring expenses, including asset impairments, of $43.9 million were recognized during Fiscal 2020, related primarily to the closure of a manufacturing facility in Korea, a European reorganization involving office and distribution center closures or downsizings and implementation of a regional shared service center, and the closure of two North American manufacturing facilities. The closure of the Korean facility resulted in severance and other labor and benefit costs of $13.2 million, an impairment of inventory of $1.4 million (recognized in cost of sales) and an impairment of fixed assets of $4.8 million (recognized in asset impairments). Restructuring costs incurred in relation to our European reorganization were $12.6 million, of which $11.4 million related to estimated severance.

Restructuring expenses, including asset impairments, of $7.9 million were recognized during the prior year, related primarily to severance costs, predominantly due to reductions in force across all regions and impairments of inventory and fixed assets related to facility closures in countries including France, the U.S., Turkey and Australia. During Fiscal 2019 we also incurred $1.6 million of professional fees relating primarily to the closure of one of our facilities in France, the reorganization of our European corporate center, and a strategic restructuring of part of our Asian business.

Interest expense

(dollars in millions)	For the year ended January 2, 2021	For the year ended December 28, 2019
Debt:		
Dollar Term Loan	$ 77.2	$ 80.7
Euro Term Loan	24.2	22.4
Dollar Senior Notes	35.9	35.4
Other loans	0.1	0.1
	137.4	**138.6**
Amortization of deferred issuance costs	13.5	16.6
Other interest expense	3.4	2.6
	$ 154.3	**$ 157.8**

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 2020 decreased when compared to the prior year due primarily to the lower interest rates applicable to the floating rate Dollar Term Loan. This decrease was substantially offset by derivative hedging activity on our cross currency and interest rate derivatives of $16.1 million during Fiscal 2020 compared to the prior year.

The amortization of deferred issuance costs in Fiscal 2020 includes accelerated amortization of $3.7 million due to the prepayment of $300.0 million against our Dollar Term Loan facility on December 31, 2020, whereas Fiscal 2019 includes accelerated amortization of $6.1 million due to the repayment of our outstanding 6.00% Senior Notes due 2022 as part of the refinancing transactions described further in note 15 to the consolidated financial statements included elsewhere in this report.

Other income

(dollars in millions)	For the year ended January 2, 2021	For the year ended December 28, 2019
Interest income on bank deposits	$ (4.3)	$ (5.7)
Foreign currency gain on net debt and hedging instruments	(5.3)	(0.8)
Net adjustments related to post-retirement benefits	(4.5)	(3.1)
Other	(0.1)	(0.2)
	$ (14.2)	**$ (9.8)**

Other income for Fiscal 2020 was $14.2 million, compared to $9.8 million in the prior year. Lower interest on bank deposits due to lower interest rates was more than offset by higher gains from movements in foreign currency exchange rates on net debt and hedging instruments during Fiscal 2020 compared to the prior year.

In addition, we recognized net settlement and curtailment gains in relation to our post-retirement benefit plans of $2.1 million during Fiscal 2020, compared to $0.7 million in the prior year.

Income tax benefit

For Fiscal 2020, we had an income tax benefit of $19.3 million on pre-tax income of $71.0 million, which resulted in an effective tax rate of (27.2%) compared to an income tax benefit of $495.9 million on pre-tax income of $198.8 million, which resulted in an effective tax rate of (249.4)% for Fiscal 2019.

The increase in the effective tax rate for Fiscal 2020 compared to the prior year was due primarily to the recognition in the prior year of a $579.0 million tax benefit related to the release of valuation allowances, related mainly to Luxembourg net operating losses, offset partially by a tax expense of $59.7 million from related unrecognized tax benefits, both resulting from our European business reorganization. In addition to the business reorganization, our effective tax rate for Fiscal 2020 benefited from certain tax items including $32.3 million for audit settlements, changes in valuation allowances and tax law changes. Fiscal 2019 also included $12.0 million of net tax benefits, consisting of a benefit in tax on international operations of $19.9 million, offset partially by an increase of $7.9 million in unrecognized tax benefits.

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. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including:

- taxable income in prior carry back years if carry back is permitted under the relevant tax law;
- future reversal of existing temporary differences;
- tax-planning strategies that are prudent and feasible; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in Fiscal 2020 that it was more likely than not that deferred tax assets in the U.K., Luxembourg, and Belgium totaling $29.5 million were realizable. Similarly, we determined in Fiscal 2019 that it was more likely than not that deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 million were realizable.

In Fiscal 2020, the deferred tax assets above relate primarily to disallowed interest carryforwards of $26 million in these jurisdictions which have no expiration. As a result of changes in estimates of future taxable profits, in the third quarter of Fiscal 2020, due primarily to the impact of anticipated changes to the composition of our intercompany financing arrangements, our judgment changed regarding valuation allowances on these deferred tax assets. The change in estimates and resulting change in judgment relate to the evaluation of proposed international tax law changes advanced during the period.

Included within the $586.2 million of valuation allowances released in Fiscal 2019 are deferred income tax assets totaling $579.0 million related to €2.1 billion of indefinite lived net operating losses in Luxembourg for which our evaluation of the positive and negative evidence changed during the first quarter of Fiscal 2019 due to the implementation of our European corporate center. Our European corporate center was implemented in Fiscal 2019 to centralize and strengthen regional operations in Europe, which thereafter became centrally managed from Luxembourg.

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.

Significant Events

On March 27, 2020, 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 increases the current deductible interest expense of the Company for both years, which will result 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.

Adjusted EBITDA

Adjusted EBITDA for Fiscal 2020 was $506.6 million, compared to $611.0 million in the prior year, a decrease of 17.1% or $104.4 million. The Adjusted EBITDA margin was 18.1% for Fiscal 2020, a 170 basis point decrease from the prior year. The decrease in Adjusted EBITDA was driven primarily by the impact from reduced volumes and resulting lower fixed cost absorption.

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 (64.5% of Gates' net sales for the year ended January 2, 2021)

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	Period over period change
Net sales	$ 1,800.2	$ 1,945.7	(7.5%)
Adjusted EBITDA	$ 353.0	$ 412.6	(14.4%)
Adjusted EBITDA margin	19.6 %	21.2 %	

Net sales in Power Transmission for Fiscal 2020 were $1,800.2 million, compared to $1,945.7 million in the prior year, a decrease of 7.5%, or $145.5 million. Excluding the adverse impact of movements in average currency exchange rates of $18.4 million, core sales decreased by 6.5%, or $127.1 million, compared to the prior year, driven primarily by lower volumes.

Power Transmission's core sales decline was driven primarily by a combination of weak demand and widespread shutdowns resulting from measures taken in response to the COVID-19 pandemic. These factors impacted sales to our automotive customers in particular, with automotive first-fit and automotive replacement sales decreasing by 14.1% and 4.7%, respectively, during Fiscal 2020 compared to the prior year. Most of this decline came from the automotive replacement channel in North America and the automotive first-fit channels in Greater China and East Asia & India. Partially offsetting these declines was growth of 4.4% in sales to our industrial first-fit customers, primarily in Greater China and EMEA, driven by the general industrial and heavy duty vehicle end markets. We also saw modest growth of 5.3% in the construction end market for Fiscal 2020 compared to the prior year, particularly in North America. Sequentially, all regions grew during the fourth quarter compared to the third quarter, with North America growing by 9.3% and EMEA by 5.5%.

Power Transmission Adjusted EBITDA for Fiscal 2020 was $353.0 million, compared to $412.6 million in the prior year, a decrease of 14.4% or $59.6 million. The Adjusted EBITDA margin for Fiscal 2020 was 19.6%, a 160 basis point decline from the prior year. The decreases compared to the prior year were driven primarily by lower volumes and resulting lower fixed cost absorption.

Fluid Power (35.5% of Gates' net sales for the year ended January 2, 2021)

(dollars in millions)	For the year ended January 2, 2021	For the year ended December 28, 2019	Period over period change
Net sales	$ 992.8	$ 1,141.4	(13.0%)
Adjusted EBITDA	$ 153.6	$ 198.4	(22.6%)
Adjusted EBITDA margin	15.5 %	17.4 %	

Net sales in Fluid Power for Fiscal 2020 were $992.8 million, compared to $1,141.4 million in the prior year, a decrease of 13.0%, or $148.6 million. Excluding the adverse impact of movements in average currency exchange rates of $16.1 million, core sales decreased by 11.6%, or $132.5 million, compared to the prior year, driven primarily by lower volumes.

Fluid Power's core sales decline in Fiscal 2020 was driven almost exclusively by lower sales to our industrial customers, across all regions, except for Greater China. The combination of weak demand and widespread shutdowns resulting from measures taken in response to the COVID-19 pandemic impacted almost all of our end markets, but particularly construction, which declined during Fiscal 2020 by 17.4% compared to the prior year. Sales to the automotive end market returned to growth in Fiscal 2020 compared to the prior year, growing by 2.2%, driven primarily by EMEA. Sequentially, most regions grew by double-digits during the fourth quarter, compared to the third quarter, with North America growing by 18.4% and EMEA by 15.5%.

Fluid Power Adjusted EBITDA for Fiscal 2020 was $153.6 million, compared to $198.4 million in the prior year period, a decrease of 22.6%, or $44.8 million. The Adjusted EBITDA margin for Fiscal 2020 was 15.5%, a 190 basis point decline from the prior year. The decreases compared to the prior year were driven primarily by lower volumes and resulting lower fixed cost absorption.

Liquidity and Capital Resources

Treasury Responsibilities and Philosophy

Our primary liquidity and capital resource needs are for working capital, debt service requirements, capital expenditures, 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. While we have seen a decline in our business during 2020, and the duration and extent of the impacts of the COVID-19 pandemic on our business are difficult to predict, we do not currently anticipate any material long-term deterioration in our overall liquidity position in the foreseeable future. Further, we do not have any meaningful debt maturities until 2024 and we do not currently expect to need to draw down under our committed lines of credit in the foreseeable future. We therefore believe that as of January 2, 2021, we have adequate liquidity and capital resources for the next twelve months.

Cash Flow

Year ended January 2, 2021 compared to the year ended December 28, 2019

Cash provided by operations was $309.0 million during Fiscal 2020 compared to cash provided by operations of $348.9 million during the prior year. This decrease was driven primarily by lower operating performance due to the difficult demand environment during the current year, offset partially by lower cash interest and tax payments. Interest paid was lower at $135.7 million during Fiscal 2020, compared to $150.8 million in the prior year, due primarily to timing of interest payments. Net income taxes paid were also lower, with $60.4 million paid during Fiscal 2020 compared to $108.8 million in the prior year, largely a function of refunds received and lower tax payments based on the decrease in taxable profits.

Net cash used in investing activities during Fiscal 2020 was $77.5 million, compared to $78.0 million in the prior year. Capital expenditures decreased by $15.7 million from $83.1 million in prior year to $67.4 million in Fiscal 2020, which was mostly offset by lower cash received under corporate-owned life insurance policies of $10.5 million and lower net cash flows from other investing activities of $4.5 million (primarily lower proceeds from the sale of property, plant and equipment).

Net cash used in financing activities was $353.8 million during Fiscal 2020, compared to $59.3 million in the prior year. This higher cash outflow was driven primarily by the prepayment of $300.0 million against our Dollar Term Loan facility in December 2020.

Indebtedness

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

	Carrying amount		Principal amount	
(dollars in millions)	As of January 2, 2021	As of December 28, 2019	As of January 2, 2021	As of December 28, 2019
Debt:				
—Secured				
Term Loans (U.S. dollar and Euro denominated)	$ 2,131.2	$ 2,395.0	$ 2,152.6	$ 2,416.8
—Unsecured				
Senior Notes (U.S. dollar)	577.3	563.2	568.0	568.0
Other debt	0.2	0.2	0.2	0.2
	$ 2,708.7	**$ 2,958.4**	**$ 2,720.8**	**$ 2,985.0**

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

Debt issuances and redemptions

On December 31, 2020, we made a principal debt prepayment of $300.0 million against our Dollar Term Loan facility.

On November 22, 2019, we issued and sold $568.0 million of unsecured Dollar Senior Notes, described further below. The proceeds from this debt issuance were used on December 5, 2019 to redeem all $568.0 million of our outstanding 6.00% Dollar Senior Notes, plus interest accrued up to and including the redemption date of $13.2 million. The majority of the costs totaling approximately $8.6 million related to the refinancing transactions have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method.

Dollar and Euro Term Loans

Our secured credit facilities include a Dollar Term Loan credit facility and a Euro Term Loan credit facility that were drawn on July 3, 2014. These facilities mature on March 31, 2024. These term loan facilities bear interest at a floating rate. As of January 2, 2021, borrowings under the Dollar Term Loan facility, which currently bears interest at LIBOR, subject to a floor of 1.00%, plus a margin of 2.75%, bore interest at a rate of 3.75% per annum. The Dollar Term Loan interest rate is re-set on the last business day of each month. As of January 2, 2021, the Euro Term Loan bore interest at EURIBOR, which is currently below 0%, subject to a floor of 0%, plus a margin of 3.00%. The Euro Term Loan interest rate is re-set on the last business day of each quarter.

Both term loans are subject to quarterly amortization payments of 0.25%, based on the original principal amount less certain prepayments with the balance payable on maturity. During Fiscal 2020, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $21.7 million and $9.4 million, respectively. During Fiscal 2019, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $17.3 million and $7.4 million, respectively.

During the periods presented, foreign exchange (losses) 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 (losses) gains were recognized in other comprehensive income ("OCI").

	For the year ended	
(dollars in millions)	January 2, 2021	December 28, 2019
(Loss) gain recognized in statement of operations	$ (51.4)	$ 17.3
Loss recognized in OCI	(15.5)	(0.2)
Total (loss) gain	**$ (66.9)**	**$ 17.1**

The above net foreign exchange (losses) gains recognized in the Other (income) expenses 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.

Our Term Loans, which mature after 2021, use LIBOR as a benchmark for establishing the rate of interest. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform and is not expected to be maintained after 2021. The transition to alternatives to LIBOR could be modestly disruptive to credit markets, and while we don't believe that the impact would be material to us, we do not yet have insight into what those impacts might be.

Unsecured Senior Notes

As of December 28, 2019, we had $568.0 million of 6.25% 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.

On and after January 15, 2022, we may redeem the 6.25% 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:	
—2022	103.125 %
—2023	101.563 %
—2024 and thereafter	100.000 %

Additionally, net cash proceeds from an equity offering can be utilized at any time prior to January 15, 2022, to redeem up to 40% of the notes at a redemption price equal to 106.250% of the principal amount thereof, plus accrued and unpaid interest through to the redemption date.

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 also have a secured revolving credit facility, maturing on January 29, 2023, that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million, with a letter of credit sub-facility of $20.0 million.

As of both January 2, 2021 and December 28, 2019, there were no drawings for cash under the revolving credit facility and there were no letters of credit outstanding.

Asset-Backed Revolver

We have a revolving credit facility backed by certain of our assets in North America. The facility allows for loans of up to a maximum of $325.0 million ($230.2 million as of January 2, 2021, compared to $294.6 million as of December 28, 2019, based on the values of the secured assets on those dates) with a letter of credit sub-facility of $150.0 million within this maximum. The facility matures on January 29, 2023.

As of both January 2, 2021 and December 28, 2019, there were no drawings for cash under the asset-backed revolver, but there were letters of credit outstanding of $28.5 million and $50.1 million, respectively.

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 January 2, 2021, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 70% of our net sales and 63% of our EBITDA as defined in the financial covenants attaching to the senior secured credit facilities. As of January 2, 2021, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 57% of our total assets and approximately 24% 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 2020, our net debt decreased by $150.3 million from $2,349.7 million as of December 28, 2019 to $2,199.4 million as of January 2, 2021. Excluding changes in foreign currency exchange rates, the decrease in net debt during Fiscal 2020 was driven primarily by the increase in cash, a function of cash provided by operating activities of $309.0 million, offset partially by capital expenditures of $67.4 million, dividends paid to non-controlling shareholders of $19.0 million and net cash paid under corporate-owned life insurance policies of $9.4 million.

Partially offsetting this decrease in net debt were movements in foreign currency exchange rates, which had an unfavorable net impact of $57.1 million on net debt during Fiscal 2020, with the majority of the movement relating to the impact of the strengthening of the Euro against the U.S. dollar on our Euro-denominated debt.

Borrowing Headroom

As of January 2, 2021, our asset-backed revolving credit facility had a borrowing base of $230.2 million, being the maximum amount we can draw down based on the current value of the secured assets. The facility was undrawn for cash, but there were letters of credit outstanding against the facility amounting to $28.5 million. We also have a secured revolving credit facility that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million.

In total, our committed borrowing headroom was $386.7 million, in addition to cash balances of $521.4 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 January 2, 2021 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 $111.5 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.

(dollars in millions)	Total	Earliest period in which payments are due 2021	2022 and 2023	2024 and 2025	2026 and beyond
Bank overdrafts and debt:					
—Principal	$ 2,720.8	$ 25.4	$ 50.5	$ 2,076.9	$ 568.0
—Interest payments[(1)(2)]	441.7	113.6	221.0	89.3	17.8
Derivative financial instruments[(3)]	105.1	15.1	69.8	20.2	—
Finance leases	3.1	1.1	1.7	0.3	—
Operating leases	174.0	27.8	40.2	28.9	77.1
Post-retirement benefits[(4)]	16.4	16.4	—	—	—
Indemnified tax liabilities	0.9	0.8	0.1	—	—
Purchase obligations[(5)]	30.2	14.1	11.8	4.2	0.1
Total	**$ 3,492.2**	**$ 214.3**	**$ 395.1**	**$ 2,219.8**	**$ 663.0**

(1) Future interest payments include payments on fixed and floating rate debt.

(2) Floating rate interest payments are estimated based on market interest rates and terms prevailing as of January 2, 2021.

(3) Net payments on cross currency swaps, interest rate caps, interest rate swaps and currency forward contracts are estimated based on market rates prevailing as of January 2, 2021.

(4) Post-retirement benefit obligations represent our expected cash contributions to defined benefit pension and other post-retirement benefit plans in 2021. 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.

(5) 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 January 2, 2021, our total cash and cash equivalents were $521.4 million, compared to $635.3 million as of December 28, 2019.

Restricted cash was $2.7 million as of January 2, 2021, compared to $1.3 million as of December 28, 2019, including $1.0 million as of January 2, 2021 and $1.0 million as of December 28, 2019, which was held in escrow for insurance purposes. Cash held in our non-wholly owned Asian subsidiaries was $152.7 million and $141.5 million as of January 2, 2021 and December 28, 2019, respectively.

Distributable Reserves

Under the laws of England and Wales, future dividend payments or share repurchases may only be made out of “distributable reserves” on the Company’s statutory balance sheet. During August 2019, the High Court of Justice in London sanctioned a reduction in the Company’s statutory capital for the purpose of creating distributable reserves by approving the cancellation of the deferred shares in issue and the cancellation of the entire amount standing to the credit of the Company’s share premium account, creating $5.5 billion of distributable reserves. These transactions, which have no impact on the consolidated U.S. GAAP financial statements, facilitate the possible future payment of dividends to shareholders of the Company or possible future share repurchases.

Non-GAAP Measures

EBITDA and Adjusted EBITDA

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

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

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

- non-cash charges in relation to share-based compensation;
- transaction-related expenses incurred in relation to business combinations and major corporate transactions, including acquisition integration activities;
- asset impairments;
- restructuring expenses, including severance-related expenses;
- net gains or losses on disposals and on the exit of businesses; and
- fees paid to our private equity sponsor for monitoring, advisory and consulting services.

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 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; the net gain or loss on disposals of assets other than in the ordinary course of operations and gains and losses incurred in relation to non-Gates businesses disposed of in prior periods; significant impairments of intangibles and of other assets, representing the excess of their carrying amounts over the amounts that are expected to be recovered from them in the future; and fees paid to our private equity sponsor.

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

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

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Net income from continuing operations	$ 90.3	$ 694.7	$ 271.7
Income tax (benefit) expense	(19.3)	(495.9)	31.8
Net interest and other expenses	140.1	148.0	193.3
Depreciation and amortization	218.6	222.2	218.5
EBITDA	**429.7**	**569.0**	**715.3**
Transaction-related expenses	5.2	2.6	6.7
Asset impairments	5.2	0.7	0.6
Restructuring expenses	37.3	6.0	6.4
Share-based compensation expense	19.8	15.0	6.0
Sponsor fees (included in other operating (income) expenses)	1.9	6.5	8.0
Impact of fair value adjustment on inventory (included in cost of sales)	—	—	0.3
Inventory impairments and adjustments (included in cost of sales)	1.4	1.2	1.2
Duplicate expenses incurred on facility relocation	—	—	5.2
Severance expenses (included in cost of sales)	1.0	4.0	1.7
Other primarily severance expenses (included in SG&A)	8.0	3.4	4.4
Other items not directly related to current operations	(2.9)	2.6	—
Adjusted EBITDA	**$ 506.6**	**$ 611.0**	**$ 755.8**

Adjusted EBITDA Margin

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

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Net sales	$ 2,793.0	$ 3,087.1	$ 3,347.6
Adjusted EBITDA	$ 506.6	$ 611.0	$ 755.8
Adjusted EBITDA margin	18.1 %	19.8 %	22.6 %

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.

(dollars in millions)	For the year ended January 2, 2021 Power Transmission	Fluid Power	Total
Net sales for the year ended January 2, 2021	$ 1,800.2	$ 992.8	**$ 2,793.0**
Impact on net sales of movements in currency rates	18.4	16.1	**34.5**
Core revenue for the year ended January 2, 2021	1,818.6	1,008.9	**2,827.5**
Net sales for the year ended December 28, 2019	1,945.7	1,141.4	**3,087.1**
Decrease in net sales on a core basis (core revenue)	$ (127.1)	$ (132.5)	**$ (259.6)**
Core revenue decline	(6.5)%	(11.6)%	**(8.4)%**

(dollars in millions)	For the year ended December 28, 2019 Power Transmission	Fluid Power	Total
Net sales for the year ended December 28, 2019	$ 1,945.7	$ 1,141.4	**$ 3,087.1**
Impact on net sales of movements in currency rates	56.5	20.5	**77.0**
Impact on net sales from recent acquisitions	—	(7.5)	**(7.5)**
Core revenue for the year ended December 28, 2019	2,002.2	1,154.4	**3,156.6**
Net sales for the year ended December 29, 2018	2,098.8	1,248.8	**3,347.6**
Decrease in net sales on a core basis (core revenue)	$ (96.6)	$ (94.4)	**$ (191.0)**
Core revenue decline	(4.6)%	(7.6)%	**(5.7)%**

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 post-employment benefit obligations and after the cash impacts of acquisitions and disposals.

Net debt represents the net total of:

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

Net debt was as follows:

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Principal amount of debt	$ 2,720.8	$ 2,985.0
Less: Cash and cash equivalents	(521.4)	(635.3)
Net debt	**$ 2,199.4**	**$ 2,349.7**

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

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Principal amount of debt	$ 2,720.8	$ 2,985.0
Accrued interest	17.3	15.2
Deferred issuance costs	(29.4)	(41.8)
Carrying amount of debt	**$ 2,708.7**	**$ 2,958.4**

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 $15.1 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 receivable of $0.6 million and $9.2 million as of January 2, 2021 and December 28, 2019, respectively, due to Gates Global LLC and its subsidiaries from indirect parent entities of Gates Global LLC and additional cash and cash equivalents held by the Company of $4.2 million and $2.0 million as of January 2, 2021 and December 28, 2019, 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 makes 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 the substantial majority 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 following two years were based on region-specific growth assumptions determined by management, taking into account strategic initiatives.

Cash flows for each of the reporting units for the years beyond this period were projected to grow at compound annual growth rates reflecting annual decreases over the next seven years from the 2023 growth rates to the terminal growth rate. For Gates as a whole, this growth rate was 4.0%. 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 2020 were 9.0% for both reporting units.

For both reporting units, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2020. A decline in the fair value of greater than 38% and 29% on our Power Transmission and Fluid Power reporting units, respectively, all else being equal, would result in an impairment of the goodwill allocated to those reporting units.

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 2020 impairment test was 10.0%. As a result of the impairment testing, no impairment was recognized during Fiscal 2020. All else being equal, a decline in the fair value of greater than 37% in the fair value of the brand and trade name intangible asset would result in an impairment.

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 2020, we determined that it was more likely than not that certain deferred income tax assets in the U.K., Luxembourg and Belgium totaling $29.5 million were realizable. During Fiscal 2019, we determined that it was more likely than not that certain deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 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 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 increase in our significant euro debt when translated to U.S. dollars, as well as 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 January 2, 2021	As of December 28, 2019
Cash and cash equivalents by currency:		
—U.S. dollar	$ 199.5	$ 336.9
—Chinese Yuan Renminbi	94.8	81.1
—Indian Rupee	49.6	43.2
—Euro	37.8	28.0
—Japanese Yen	30.6	29.9
—Other	109.1	116.2
	$ 521.4	**$ 635.3**
Principal amount of debt by currency:		
—U.S. dollar	$ 1,634.2	$ 1,982.7
—Euro	1,086.6	1,002.3
	$ 2,720.8	**$ 2,985.0**

As described in note 13 to the audited consolidated financial statements included elsewhere in this annual report, during Fiscal 2020 and Fiscal 2019 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 are designated as cash flow hedges and 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. 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 January 2, 2021						
Maturity date:						
—June 2025	$ 870.0	— %	2.5 %	— %	1.0 %	1 month LIBOR
—June 2023	€ 425.0	— %	0.3 %	— %	— %	3 month EURIBOR
As of December 28, 2019						
Maturity date:						
—June 2020	$ 1,200.0	— %	0.5 %	— %	— %	3 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 January 2, 2021				As of December 28, 2019			
	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	$ —	$ —	$ 2.1	**$ 2.1**	$ —	$ —	$ 1.1	**$ 1.1**
Cash and cash equivalents	211.4	—	307.3	**518.7**	380.4	—	254.9	**635.3**
Restricted cash	—	—	2.7	**2.7**	—	—	1.3	**1.3**
	211.4	**—**	**312.1**	**523.5**	**380.4**	**—**	**257.3**	**637.7**
Financial liabilities:								
Debt	(762.9)	(1,957.7)	(0.2)	**(2,720.8)**	(741.7)	(2,243.1)	(0.2)	**(2,985.0)**
Obligations under finance leases	—	(3.0)	—	**(3.0)**	—	(1.7)	—	**(1.7)**
	(762.9)	**(1,960.7)**	**(0.2)**	**(2,723.8)**	**(741.7)**	**(2,244.8)**	**(0.2)**	**(2,986.7)**
	$ (551.5)	**$ (1,960.7)**	**$ 311.9**	**$ (2,200.3)**	**$ (361.3)**	**$ (2,244.8)**	**$ 257.1**	**$ (2,349.0)**

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 B2 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 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 16.5% and 11.9%, respectively, of our total trade accounts receivable balance as of January 2, 2021, compared to 18.9% and 11.3%, respectively, as of December 28, 2019. 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 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 January 2, 2021, 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 January 2, 2021, 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 January 2, 2021. Based on management’s assessment, we have concluded that our internal control over financial reporting was effective at January 2, 2021.

Deloitte & Touche LLP, 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 January 2, 2021, 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

None.

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 2021 annual general meeting of shareholders (our "2021 Proxy Statement"), anticipated to be filed with the Securities and Exchange Commission within 120 days of January 2, 2021, under the headings "Proposal 1- Election of Directors," "Corporate Governance," and "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. 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 2021 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of January 2, 2021, 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 2021 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of January 2, 2021, under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

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

The information called for by this Item 13 is incorporated by reference to our 2021 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of January 2, 2021, under the headings "Corporate Governance" and "Related-Person Transactions Policies and Procedures."

Item 14. Principal Accounting Fees and Services

The information called for by this Item 14 is incorporated by reference to our 2021 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of January 2, 2021, under the heading "Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits, 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*			
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	Amended and Restated Credit Agreement, dated as of January 24, 2018	8-K	10.7	1/29/2018
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	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
10.12	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
10.13	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
10.14	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
10.15	Gates Industrial Corporation plc 2014 Stock Incentive Plan†	10-K	10.15	2/14/2019
10.16	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (Pre-2017 grants to Ivo Jurek, David Naemura, Walter Lifsey and Rasmani Bhattacharya†	10-K	10.16	2/14/2019
10.17	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (Pre-2017 grant to Roger Gaston)†	10-K	10.17	2/14/2019
10.18	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
10.19	Form of Nonqualified Stock Option Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan (2017 grant to Roger Gaston)†	10-K	10.19	2/14/2019
10.20	Form of Management Equity Subscription Agreement under the Gates Industrial Corporation plc 2014 Stock Incentive Plan†	10-K	10.20	2/14/2019
10.21	Gates Industrial Corporation plc 2015 Non-Employee Director Stock Incentive Plan†	10-K	10.21	2/14/2019
10.22	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
10.23	Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.1	11/2/2018
10.24	Form of Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.2	5/3/2018
10.25	Form of Time-Based Restricted Stock Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.2	11/2/2018
10.26	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
10.27	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
10.28	Form of Stock Appreciation Right Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan†	10-Q	10.5	11/2/2018
10.29	Form of Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (3 yr.)†	10-Q	10.1	5/8/2019
10.30	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
10.31	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
10.32	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
10.33	Special Option Agreement under the Gates Industrial Corporation plc 2018 Omnibus Incentive Plan (5 yr.)†	10-Q	10.5	5/8/2019

10.34	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
10.35	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
10.36	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
10.37	Gates Corporation Supplemental Retirement Plan, amended and restated effective March 8, 2018†	10-Q	10.1	5/3/2018
10.38	Form of Director and Officer Deed of Indemnity†	S-1	10.12	1/8/2018
10.39	Form of Executive Severance Plan†	S-1	10.15	12/27/2017
10.40	Form of Executive Change in Control Plan†	S-1	10.16	12/27/2017
10.41	Separation Agreement, effective March 13, 2020, between the Company and Jamey S. Seely†	8-K	10.1	3/18/2020
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 January 2, 2021, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations for the years end ended January 2, 2021, December 28, 2019 and December 29, 2018 (ii) Consolidated Statements of Comprehensive Income for the years ended January 2, 2021, December 28, 2019 and December 29, 2018 (iii) Consolidated Balance Sheets as of January 2, 2021 and December 28, 2019, (iv) Consolidated Statements of Cash Flows for the years ended January 2, 2021, December 28, 2019 and December 29, 2018 (v) Consolidated Statements of Shareholders' Equity for the years ended January 2, 2021, December 28, 2019 and December 29, 2018, 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.

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 10, 2021

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 10, 2021.

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/ Julia C. Kahr Julia C. Kahr	Director
/s/ Terry Klebe Terry Klebe	Director
/s/ James W. Ireland James W. Ireland	Director
/s/ Stephanie Mains Stephanie Mains	Director
/s/ Wilson S. Neely Wilson S. Neely	Director
/s/ Peifang Zhang Peifang Zhang	Director

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 January 2, 2021 and December 28, 2019, the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity, for each of the three years in the period ended January 2, 2021, 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 January 2, 2021, 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 January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2021, 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 January 2, 2021, 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 brand and trade name intangible asset involves the comparison of the fair value of the brand and trade name intangible asset to its carrying value. The Company determined the fair value of the brand and trade name intangible asset using a relief from royalty valuation methodology. The determination of the fair value for both the goodwill and brand and trade name intangible asset impairment analyses required management to make significant estimates and assumptions related to forecasts of sales growth rates. The goodwill balance was $2,120.2 million as of January 2, 2021, of which $685.8 million and $1,434.4 million was 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 brand and trade name intangible asset balance was $469.4 million as of January 2, 2021. The fair value of the brand and trade name 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 brand and trade name intangible asset for its impairment analyses and the uncertainty in the current economic environment as a result of the COVID-19 pandemic, performing audit procedures to evaluate the reasonableness of management's forecasts of sales growth rates through 2023 ("sales growth rates") 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 brand and trade name intangible asset included the following, among others:

- We tested the effectiveness of controls over management's goodwill and brand and trade name intangible asset impairment evaluations, including those over the determination of the fair value of goodwill and the brand and trade name intangible asset, including controls related to management's forecasts of sales growth rates.
- We evaluated management's ability to accurately forecast sales growth rates 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 brand and trade name intangible asset impairment analyses.
- With the assistance of our fair value specialists, we evaluated the reasonableness of management's forecasts of sales growth rates by comparing the forecasts to (1) those of companies in its peer group, and (2) historical and projected financial information of peer companies from external market sources.
- We evaluated the reasonableness of management's forecasts of sales growth rates 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 10, 2021

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 January 2, 2021	December 28, 2019	December 29, 2018
Net sales	$ 2,793.0	$ 3,087.1	$ 3,347.6
Cost of sales	1,758.3	1,944.6	2,017.0
Gross profit	**1,034.7**	**1,142.5**	**1,330.6**
Selling, general and administrative expenses	776.9	777.3	805.8
Transaction-related expenses	5.2	2.6	6.7
Asset impairments	5.2	0.7	0.6
Restructuring expenses	37.3	6.0	6.4
Other operating (income) expenses	(1.0)	9.1	14.3
Operating income from continuing operations	**211.1**	**346.8**	**496.8**
Interest expense	154.3	157.8	175.9
Other (income) expenses	(14.2)	(9.8)	17.4
Income from continuing operations before taxes	**71.0**	**198.8**	**303.5**
Income tax (benefit) expense	(19.3)	(495.9)	31.8
Net income from continuing operations	**90.3**	**694.7**	**271.7**
Loss on disposal of discontinued operations, net of tax, respectively, of $0, $0 and $0	0.3	0.6	0.6
Net income	**90.0**	**694.1**	**271.1**
Less: non-controlling interests	10.6	4.0	25.8
Net income attributable to shareholders	**$ 79.4**	**$ 690.1**	**$ 245.3**
Earnings per share			
Basic			
Earnings per share from continuing operations	$ 0.27	$ 2.38	$ 0.86
Earnings per share from discontinued operations	—	—	—
Earnings per share	**$ 0.27**	**$ 2.38**	**$ 0.86**
Diluted			
Earnings per share from continuing operations	$ 0.27	$ 2.37	$ 0.84
Earnings per share from discontinued operations	—	—	—
Earnings per share	**$ 0.27**	**$ 2.37**	**$ 0.84**

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 January 2, 2021	December 28, 2019	December 29, 2018
Net income	**$ 90.0**	**$ 694.1**	**$ 271.1**
Other comprehensive income (loss)			
Foreign currency translation:			
— Net translation gain (loss) on foreign operations, net of tax expense, respectively, of $0, $(0.8), and $(1.2)	113.1	29.4	(134.9)
— (Loss) gain on net investment hedges, net of tax expense, respectively, of $(0.1), $0, and $0	(41.9)	5.5	9.8
Total foreign currency translation movements	**71.2**	**34.9**	**(125.1)**
Cash flow hedges (Interest rate derivatives):			
— Loss arising in the period, net of tax benefit, respectively, of $5.6, $4.5, and $0	(23.5)	(27.2)	(4.5)
— Reclassification to net income, net of tax (expense) benefit, respectively, of $(2.5), $(0.2), and $4.7	10.2	2.3	10.1
Total cash flow hedges movements	**(13.3)**	**(24.9)**	**5.6**
Post-retirement benefits:			
— Current year actuarial movements, net of tax (expense) benefit, respectively, of $(5.8), $2.8, and $2.2	24.8	(16.7)	(5.3)
— Reclassification of prior year actuarial movements to net income, net of tax benefit (expense), respectively, of $0.5, $(0.2), and $0.1	(1.8)	0.2	(0.5)
Total post-retirement benefits movements	**23.0**	**(16.5)**	**(5.8)**
Other comprehensive income (loss)	**80.9**	**(6.5)**	**(125.3)**
Comprehensive income for the period	**$ 170.9**	**$ 687.6**	**$ 145.8**
Comprehensive income attributable to shareholders:			
—Income arising from continuing operations	$ 132.7	$ 686.6	$ 138.7
—Loss arising from discontinued operations	(0.3)	(0.6)	(0.6)
	132.4	**686.0**	**138.1**
Comprehensive income attributable to non-controlling interests	38.5	1.6	7.7
	$ 170.9	**$ 687.6**	**$ 145.8**

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 January 2, 2021	As of December 28, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 521.4	$ 635.3
Trade accounts receivable, net of allowances of $5.2 and $8.6	695.0	694.7
Inventories	508.2	475.1
Taxes receivable	28.6	22.1
Prepaid expenses and other assets	153.4	131.4
Total current assets	**1,906.6**	**1,958.6**
Non-current assets		
Property, plant and equipment, net	705.0	727.9
Goodwill	2,120.2	2,060.5
Pension surplus	69.3	38.1
Intangible assets, net	1,788.6	1,876.0
Right-of-use assets	120.9	123.0
Taxes receivable	26.5	23.0
Deferred income taxes	672.6	587.1
Other non-current assets	16.6	17.1
Total assets	**$ 7,426.3**	**$ 7,411.3**
Liabilities and equity		
Current liabilities		
Debt, current portion	$ 42.7	$ 46.1
Trade accounts payable	417.4	374.7
Taxes payable	14.0	48.5
Accrued expenses and other current liabilities	252.2	188.8
Total current liabilities	**726.3**	**658.1**
Non-current liabilities		
Debt, less current portion	2,666.0	2,912.3
Post-retirement benefit obligations	142.5	151.2
Lease liabilities	113.6	116.2
Taxes payable	111.5	108.8
Deferred income taxes	360.4	369.3
Other non-current liabilities	121.0	84.7
Total liabilities	**4,241.3**	**4,400.6**
Commitments and contingencies (note 22)		
Shareholders' equity		
—Shares, par value of $0.01 each - authorized shares: 3,000,000,000; outstanding shares: 290,853,067 (December 28, 2019: authorized shares: 3,000,000,000; outstanding shares: 290,157,299)	2.9	2.9
—Additional paid-in capital	2,456.8	2,434.5
—Accumulated other comprehensive loss	(805.4)	(858.4)
—Retained earnings	1,151.4	1,072.0
Total shareholders' equity	**2,805.7**	**2,651.0**
Non-controlling interests	379.3	359.7
Total equity	**3,185.0**	**3,010.7**
Total liabilities and equity	**$ 7,426.3**	**$ 7,411.3**

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 January 2, 2021	December 28, 2019	December 29, 2018
Cash flows from operating activities			
Net income	$ 90.0	$ 694.1	$ 271.1
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	218.6	222.2	218.5
Non-cash currency transaction loss (gain) on debt and hedging instruments	46.9	(16.8)	(45.5)
Premium paid on redemption of long-term debt	—	—	27.0
Other net non-cash financing (income) expenses	(28.0)	27.4	65.6
Share-based compensation expense	19.8	15.0	6.0
Decrease in post-employment benefit obligations, net	(12.4)	(9.4)	(4.6)
Deferred income taxes	(47.7)	(648.4)	(64.9)
Asset impairments	6.6	1.9	2.7
Other operating activities	9.1	4.1	2.1
Changes in operating assets and liabilities, net of effects of acquisitions:			
—Decrease (increase) in accounts receivable	9.7	41.8	(49.6)
—(Increase) decrease in inventories	(22.1)	65.1	(96.1)
—Increase (decrease) in accounts payable	28.6	(48.2)	42.1
—Decrease (increase) in prepaid expenses and other assets	6.8	(2.6)	(27.5)
—(Decrease) increase in taxes payable	(48.1)	46.2	(15.3)
—Increase (decrease) in other liabilities	31.2	(43.5)	(18.1)
Net cash provided by operations	**309.0**	**348.9**	**313.5**
Cash flows from investing activities			
Purchases of property, plant and equipment	(58.2)	(72.1)	(166.1)
Purchases of intangible assets	(9.2)	(11.0)	(16.6)
Cash paid under corporate-owned life insurance policies	(10.9)	(10.7)	(10.3)
Cash received under corporate-owned life insurance policies	1.5	12.0	2.9
Purchase of businesses, net of cash acquired	—	—	(50.9)
Other investing activities	(0.7)	3.8	(2.6)
Net cash used in investing activities	**(77.5)**	**(78.0)**	**(243.6)**
Cash flows from financing activities			
Issuance of shares	3.1	1.8	799.7
Other offering costs	—	—	(8.6)
Proceeds from long-term debt	—	568.0	—
Payments of long-term debt	(331.2)	(593.1)	(933.5)
Premium paid on redemption of long-term debt	—	—	(27.0)
Debt issuance costs paid	(0.3)	(8.3)	—
Dividends paid to non-controlling interests	(19.0)	(28.8)	(35.2)
Other financing activities	(6.4)	1.1	5.7
Net cash used in financing activities	**(353.8)**	**(59.3)**	**(198.9)**
Effect of exchange rate changes on cash and cash equivalents and restricted cash	9.8	0.4	(12.4)
Net (decrease) increase in cash and cash equivalents and restricted cash	**(112.5)**	**212.0**	**(141.4)**
Cash and cash equivalents and restricted cash at the beginning of the period	636.6	424.6	566.0
Cash and cash equivalents and restricted cash at the end of the period	**$ 524.1**	**$ 636.6**	**$ 424.6**
Supplemental schedule of cash flow information			
Interest paid, net of amount capitalized	$ 135.7	$ 150.8	$ 157.9
Income taxes paid	$ 60.4	$ 108.8	$ 114.0
Accrued capital expenditures	$ 1.0	$ 1.8	$ 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 (deficit) earnings	Total shareholders' equity	Non-controlling interests	Total equity
As of December 30, 2017	$ 2.5	$ 1,622.6	$ (747.4)	$ 136.9	**$ 1,014.6**	$ 413.8	**$ 1,428.4**
Net income	—	—	—	245.3	**245.3**	25.8	**271.1**
Other comprehensive loss, net	—	—	(106.9)	(0.3)	**(107.2)**	(18.1)	**(125.3)**
Total comprehensive (loss) income	**—**	**—**	**(106.9)**	**245.0**	**138.1**	**7.7**	**145.8**
Other changes in equity:							
—Issuance of shares	0.4	841.3	—	—	**841.7**	—	**841.7**
—Cost of shares issued	—	(53.0)	—	—	**(53.0)**	—	**(53.0)**
—Share-based compensation	—	6.0	—	—	**6.0**	—	**6.0**
—Dividends paid to non-controlling interests	—	—	—	—	**—**	(35.2)	**(35.2)**
As of December 29, 2018	**2.9**	**2,416.9**	**(854.3)**	**381.9**	**1,947.4**	**386.3**	**2,333.7**
Net income	—	—	—	690.1	**690.1**	4.0	**694.1**
Other comprehensive loss, net	—	—	(4.1)	—	**(4.1)**	(2.4)	**(6.5)**
Total comprehensive (loss) income	**—**	**—**	**(4.1)**	**690.1**	**686.0**	**1.6**	**687.6**
Other changes in equity:							
—Issuance of shares	—	1.8	—	—	**1.8**	—	**1.8**
—Share-based compensation	—	14.6	—	—	**14.6**	—	**14.6**
—Change in ownership of a controlled subsidiary	—	1.2	—	—	**1.2**	(1.2)	**—**
—Shares issued by a subsidiary to a non-controlling interest	—	—	—	—	**—**	1.8	**1.8**
—Dividends paid to non-controlling interests	—	—	—	—	**—**	(28.8)	**(28.8)**
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	—	2.8	—	—	**2.8**	—	**2.8**
—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**

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

1. Background

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

In these 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.

The first quarter of 2020 marked the beginning of an unprecedented environment for the global economy, which has continued throughout 2020, although to a lessening degree as it impacts our business, as governments, companies and communities implemented strict measures to minimize the spread of the novel coronavirus ("COVID-19"). As a result of the unpredictable and evolving impact of the pandemic and measures being taken around the world to combat its spread, the timing and trajectory of the recovery remain uncertain, and any future adverse impact of the pandemic on the Company's operations may be material but cannot be reasonably estimated at this time.

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 period, except for the adoption on the first day of our 2020 fiscal year (unless issued later or otherwise noted below) of the following new Accounting Standard Updates (each, an "ASU"):

- ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*"
- ASU 2020-02 "*Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842)*"

  In June 2016, the Financial Accounting Standards Board ("FASB") issued an ASU which broadens the information that an entity must consider when developing its expected credit loss estimate for financial assets. The measurement of expected credit losses should be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The financial asset must be measured at the net amount expected to be collected.

  These ASUs are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. On transition, no cumulative-effect adjustment was recognized to retained earnings.

- ASU 2020-04 "*Reference Rate Reform*" (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

  In March 2020, the FASB issued an ASU to provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.

  The guidance in this ASU is optional and may be elected over time as reference rate reform activities occur. During the second quarter of 2020, the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. We will continue to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

- ASU 2018-14 "*Compensation - Retirement Benefits - Defined Benefit Plans - General*" (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans

  In August 2018, the FASB issued an ASU to modify the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The amendments remove certain disclosures, clarify other disclosure requirements, and add new disclosure requirements that have been identified as relevant.

  The amendments are effective for fiscal years ending after December 15, 2020, and should be applied on a retrospective basis to all periods presented. On adoption of this ASU, we have accordingly revised the disclosures in our post-retirement benefits footnote.

The following ASUs that were also adopted on the first day of our 2020 fiscal year did not have a significant impact on our results, financial position or disclosures:

- ASU 2018-13 "*Fair Value Measurement*" (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement
- ASU 2018-15 "*Intangibles - Goodwill and Other - Internal-Use Software*" (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

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 January 2, 2021 and December 28, 2019 and the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity are presented for the years ended January 2, 2021 ("Fiscal 2020"), December 28, 2019 ("Fiscal 2019") and December 29, 2018 ("Fiscal 2018").

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 the 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 loss included in operating income from continuing operations during Fiscal 2020 was $7.7 million, compared to a loss of $1.7 million in Fiscal 2019 and a loss of $4.0 million in Fiscal 2018. We also recognized net financing-related foreign currency transaction gains within other (income) expenses of $5.3 million during Fiscal 2020, compared to a gain of $0.8 million in Fiscal 2019 and a gain of $8.7 million in Fiscal 2018.

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 the substantial majority 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 2020, we recognized shipping and handling costs of $137.2 million, compared to $145.2 million in Fiscal 2019 and $159.9 million in Fiscal 2018.

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 $67.2 million in Fiscal 2020, compared to $67.9 million in Fiscal 2019 and $71.4 million in Fiscal 2018. 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 2020, we recognized advertising costs of $6.7 million, compared to $10.2 million in Fiscal 2019 and $10.4 million in Fiscal 2018.

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 January 2, 2021, inventories whose cost was determined on a LIFO basis represented 30.8% of the total carrying amount of inventories compared to 32.5% as of December 28, 2019.

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, the fair values exceeded the carrying values and no goodwill impairments were therefore recognized during Fiscal 2020, Fiscal 2019 or Fiscal 2018.

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 92% of the lease liability under non-cancellable leases as of January 2, 2021. 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 January 2, 2021, 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 $2.7 million as of January 2, 2021, compared to $1.3 million and $1.2 million as of December 28, 2019 and December 29, 2018, 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. Recent 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.

(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 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 reported amounts of assets, liabilities, revenue and expenses. Estimates and assumptions are particularly important in accounting for rebates, post-retirement benefits, impairment of long-lived assets, intangible assets and goodwill, inventory valuation, financial instruments, share-based compensation, product warranties and income taxes. Estimates and assumptions used are 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 and estimates, including those resulting from the impacts of the COVID-19 pandemic, actual outcomes could differ from those assumptions and estimates.

3. Recent accounting pronouncements not yet adopted

The following recent accounting pronouncements are relevant to Gates' operations but have not yet been adopted.

- ASU 2019-12 "*Simplifying the Accounting for Income Taxes*" (Topic 740): Income Taxes

  In December 2019, the FASB issued an ASU to simplify and reduce the complexity of general principles in Topic 740: Income Taxes. Such simplifications include the elimination of certain exceptions to: 1) the incremental approach for intraperiod tax allocation, 2) the requirement to recognize a deferred income tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) the ability not to recognize a deferred income tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and 4) the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The ASU provides for a number of different approaches to applying the changes, depending on the amendment, from full retrospective to modified retrospective to fully prospective. We do not expect any significant impact on our consolidated financial statements on adoption of this ASU.

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 base 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)	January 2, 2021	December 28, 2019	December 29, 2018
Power Transmission	$ 1,800.2	$ 1,945.7	$ 2,098.8
Fluid Power	992.8	1,141.4	1,248.8
Net sales	**$ 2,793.0**	**$ 3,087.1**	**$ 3,347.6**

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					
	January 2, 2021		December 28, 2019		December 29, 2018	
(dollars in millions)	Power Transmission	Fluid Power	Power Transmission	Fluid Power	Power Transmission	Fluid Power
U.S.	$ 538.3	$ 513.9	$ 580.4	$ 590.0	$ 606.3	$ 671.7
North America, excluding U.S.	147.3	146.9	165.3	175.9	159.3	185.6
United Kingdom ("U.K.")	44.3	28.2	43.6	37.3	55.0	39.9
EMEA[1], excluding U.K.	487.4	151.0	509.9	173.6	584.5	172.8
East Asia and India	251.8	60.5	288.6	74.3	311.7	87.5
Greater China	279.5	66.9	288.4	57.8	310.7	59.0
South America	51.6	25.4	69.5	32.5	71.3	32.3
Net sales	**$ 1,800.2**	**$ 992.8**	**$ 1,945.7**	**$ 1,141.4**	**$ 2,098.8**	**$ 1,248.8**

(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)	January 2, 2021	December 28, 2019	December 29, 2018
Developed	$ 1,787.8	$ 2,013.4	$ 2,157.4
Emerging	1,005.2	1,073.7	1,190.2
Net sales	**$ 2,793.0**	**$ 3,087.1**	**$ 3,347.6**

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 business combinations and major corporate transactions, including acquisition integration activities;
- impairments of assets;
- restructuring expenses, including severance-related expenses;
- net gains or losses on disposals and on the exit of businesses; 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)	January 2, 2021	December 28, 2019	December 29, 2018
Power Transmission	$ 353.0	$ 412.6	$ 492.2
Fluid Power	153.6	198.4	263.6
Adjusted EBITDA	**$ 506.6**	**$ 611.0**	**$ 755.8**

Reconciliation of net income from continuing operations to Adjusted EBITDA:

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Net income from continuing operations	$ 90.3	$ 694.7	$ 271.7
Income tax (benefit) expense	(19.3)	(495.9)	31.8
Income from continuing operations before taxes	**71.0**	**198.8**	**303.5**
Interest expense	154.3	157.8	175.9
Other (income) expenses	(14.2)	(9.8)	17.4
Operating income from continuing operations	**211.1**	**346.8**	**496.8**
Depreciation and amortization	218.6	222.2	218.5
Transaction-related expenses [1]	5.2	2.6	6.7
Asset impairments	5.2	0.7	0.6
Restructuring expenses	37.3	6.0	6.4
Share-based compensation expense	19.8	15.0	6.0
Sponsor fees (included in other operating (income) expenses)	1.9	6.5	8.0
Impact of fair value adjustment on inventory (included in cost of sales)	—	—	0.3
Inventory impairments and adjustments (included in cost of sales)	1.4	1.2	1.2
Duplicate expenses incurred on facility relocation	—	—	5.2
Severance expenses (included in cost of sales)	1.0	4.0	1.7
Other primarily severance expenses (included in SG&A)	8.0	3.4	4.4
Other items not directly related to current operations	(2.9)	2.6	—
Adjusted EBITDA	**$ 506.6**	**$ 611.0**	**$ 755.8**

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

E. Selected geographic information

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Property, plant and equipment, net by geographic location		
U.S.	$ 184.4	$ 199.2
Rest of North America	121.5	117.3
U.K.	31.8	32.6
Rest of EMEA	161.4	154.4
East Asia and India	54.9	65.6
Greater China	134.9	138.4
South America	16.1	20.4
	$ 705.0	**$ 727.9**

F. Information about major customers

Gates has a significant concentration of sales in the U.S., which accounted for 39.0% of Gates' net sales by destination from continuing operations during Fiscal 2020, compared to 43.2% during Fiscal 2019 and 39.2% during Fiscal 2018. During Fiscal 2020, 2019 and 2018, no single customer accounted for more than 10% of Gates' net sales. Two customers of our North America businesses accounted for 16.5% and 11.9%, respectively, of our total trade accounts receivable balance as of January 2, 2021, compared to 18.9% and 11.3%, respectively, as of December 28, 2019. 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, combine back-office workgroups and relocate certain operations to lower cost locations. The manufacturing footprint investments and other productivity improvements completed in recent years have helped to position us to accelerate and expand upon 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 a lesser degree, to streamline our selling, general and administrative ("SG&A") back-office functions.

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)	January 2, 2021	December 28, 2019	December 29, 2018
Restructuring expenses:			
—Severance expenses	$ 24.0	$ 4.7	$ 0.5
—Non-severance labor and benefit expenses	3.8	—	—
—Consulting expenses	2.1	1.6	3.5
—Other restructuring expenses (benefits)	7.4	(0.3)	2.4
	37.3	**6.0**	**6.4**
Restructuring expenses in asset impairments:			
—Impairment of fixed assets	5.2	0.7	—
Restructuring expenses in cost of sales:			
—Impairment of inventory	1.4	1.2	0.4
—Other restructuring expenses	—	—	0.5
Total restructuring expenses	**$ 43.9**	**$ 7.9**	**$ 7.3**
Expenses related to other strategic initiatives:			
—Severance expenses included in cost of sales	$ 1.0	$ 4.0	$ 1.2
—Severance expenses included in SG&A	8.0	3.4	3.1
Total expenses related to other strategic initiatives	**$ 9.0**	**$ 7.4**	**$ 4.3**

Restructuring and other strategic initiatives during the year ended January 2, 2021 related primarily to the closure of a manufacturing facility in Korea, a European reorganization involving office and distribution center closures or downsizings and implementation of a regional shared service center, and the closure of two North American manufacturing facilities, in addition to reductions in workforce, primarily in EMEA and North America. The closure of the Korean facility resulted in severance and other labor and benefit costs of $13.2 million, an impairment of inventory of $1.4 million (recognized in cost of sales) and an impairment of fixed assets of $4.8 million (recognized in asset impairments). Restructuring costs incurred in relation to our European reorganization were $12.6 million, of which $11.4 million related to estimated severance.

Expenses incurred in connection with our restructuring and other strategic initiatives during the year ended December 28, 2019 related primarily to reductions in force across all regions and impairments of inventory and fixed assets related to facility closures in countries including France, the U.S., Turkey and Australia. During the year ended December 28, 2019 we also incurred $1.6 million of professional fees relating primarily to the closure of one of our facilities in France, the reorganization of our European corporate center, and a strategic restructuring of part of our Asian business.

Restructuring expenses of $7.3 million were recognized during the year ended December 29, 2018, related primarily to the implementation of our European corporate center and a strategic restructuring of part of our Asian business.

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)	January 2, 2021	December 28, 2019	December 29, 2018
Power Transmission	$ 32.6	$ 3.5	$ 2.8
Fluid Power	11.3	4.4	4.5
Continuing operations	**$ 43.9**	**$ 7.9**	**$ 7.3**

The following summarizes the reserve for restructuring expenses for the year ended January 2, 2021 and December 28, 2019, respectively:

	For the year ended	
(dollars in millions)	January 2, 2021	December 28, 2019
Balance as of the beginning of the period	$ 2.9	$ 2.6
Utilized during the period	(23.4)	(5.7)
Net charge for the period	37.7	6.1
Released during the period	(0.4)	(0.1)
Foreign currency translation	1.1	—
Balance as of the end of the period	**$ 17.9**	**$ 2.9**

Restructuring reserves, which are expected to be utilized during 2021, 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 and income tax (benefit) expense are 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)	January 2, 2021	December 28, 2019	December 29, 2018
U.K.	$ (82.7)	$ (80.6)	$ (12.8)
U.S.	(105.3)	0.9	(43.3)
Other	259.0	278.5	359.6
Income from continuing operations before income taxes	**$ 71.0**	**$ 198.8**	**$ 303.5**

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

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Current tax			
U.K.	$ (0.1)	$ 7.5	$ 0.8
U.S.	5.4	21.0	9.0
Other foreign	23.1	124.3	86.9
Total current tax expense	**$ 28.4**	**$ 152.8**	**$ 96.7**
Deferred income tax			
U.K.	$ (19.2)	$ (4.7)	$ 2.8
U.S.	2.0	(49.3)	(45.3)
Other foreign	(30.5)	(594.7)	(22.4)
Total deferred income tax benefit	**(47.7)**	**(648.7)**	**(64.9)**
Income tax (benefit) expense	**$ (19.3)**	**$ (495.9)**	**$ 31.8**

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

	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
U.K. corporation tax rate	19.0%	19.0%	19.0%
Effect of:			
—State tax provision, net of Federal benefit	(0.9%)	(2.1%)	(1.5%)
—Provision for unrecognized income tax benefits	(30.8%)	34.0%	(1.3%)
—Company Owned Life Insurance	(11.3%)	(4.4%)	(2.8%)
—Tax on international operations(1)	(4.4%)	(325.9%)	(1.1%)
—Manufacturing incentives(2)	(4.4%)	0.5%	(4.2%)
—Change in valuation allowance(3)	(2.8%)	6.6%	2.9%
—Deferred income tax rate changes	(3.8%)	17.8%	0.2%
—Currency exchange rate movements	8.2%	6.5%	0.1%
—Other permanent differences	4.0%	(1.4%)	(0.8%)
Reported effective income tax rate	**(27.2%)**	**(249.4%)**	**10.5%**

(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. In addition, for the years ended January 2, 2021 and December 28, 2019, it also includes the effects of tax law enactments other than deferred income tax rate changes; and for the year ended December 28, 2019, it also includes $608.6 million for the generation of finite lived net operating losses in Luxembourg. Finally, for the year ended January 2, 2021, it includes the impact of nondeductible transaction-related expenses.

(2) "Manufacturing incentives" for the year ended December 28, 2019 includes an adjustment of $5.0 million for the expiration of manufacturing incentives in the Czech Republic, offset partially by $4.1 million of incentives generated during the year.

(3) "Change in valuation allowance" for the year ended December 28, 2019 is comprised primarily of an increase of $608.6 million of additional valuation allowance for finite lived net operating losses generated in Luxembourg, offset partially by a release of $579.0 million of valuation allowance against indefinite lived net operating losses in Luxembourg and by a release of $5.0 million of valuation allowances on manufacturing incentives in the Czech Republic.

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 increases the current deductible interest expense of the Company for both years, which will result 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 January 2, 2021	As of December 28, 2019
Deferred income tax assets:		
Accounts receivable	$ 3.3	$ 3.1
Inventories	8.0	6.2
Property, plant and equipment	8.6	5.9
Lease liabilities	36.8	37.0
Accrued expenses	39.8	46.8
Post-retirement benefit obligations	30.1	27.8
Compensation	19.3	12.8
Net operating losses	1,540.7	1,480.3
Capital losses	151.9	130.7
Credits	147.9	138.7
Interest	122.1	120.9
Other items	14.2	11.0
	$ 2,122.7	**$ 2,021.2**
Valuation allowances	(1,219.9)	(1,200.2)
Total deferred income tax assets	**$ 902.8**	**$ 821.0**
Deferred income tax liabilities:		
Inventories	$ (22.1)	$ (22.7)
Property, plant and equipment	(54.8)	(51.2)
Lease right-of-use assets	(30.3)	(30.1)
Intangible assets	(428.3)	(450.7)
Post-retirement benefit obligations	(12.9)	(6.8)
Undistributed earnings	(40.6)	(40.9)
Other items	(1.6)	(0.8)
Total deferred income tax liabilities	**$ (590.6)**	**$ (603.2)**
Net deferred income tax assets	**$ 312.2**	**$ 217.8**

As of January 2, 2021, the Company had the following loss and credit carryforward amounts:

- Gates had U.S. federal, U.K. and foreign operating tax losses amounting to $6,152.1 million and U.S. state operating tax losses amounting to $176.3 million. Operating losses of $3,543.1 million can be carried forward indefinitely and $2,785.3 million have expiration dates between 2021 and 2040. We recognized a related deferred income tax asset of $654.7 million after valuation allowance of $885.9 million;
- Gates had U.K. capital tax losses amounting to $799.5 million, all of which can be carried forward indefinitely. We recognized no related deferred income tax asset after valuation allowance of $151.9 million;

- Gates had U.S. federal, Luxembourg, Belgium and U.K. interest expense deductions which can be carried forward amounting to $515.5 million. Interest expense carried forward can be carried forward indefinitely. We recognized a related deferred tax asset of $86.5 million after valuation allowance of $35.6 million;
- Gates had U.S. federal foreign tax credits amounting to $143.4 million, which expire between 2021 and 2027. We recognized a related deferred income tax asset of $2.5 million after valuation allowance of $140.9 million; and
- Gates had other tax credits amounting to $4.5 million, of which $0.5 million can be carried forward indefinitely and $4.0 million expire between 2021 and 2040. We recognized a deferred income tax asset of $3.4 million after valuation allowance of $1.1 million.

As of January 2, 2021, income and withholding taxes in the various tax jurisdictions in which Gates operates have not been provided on approximately $1,707.0 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 $40.6 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 income 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 income 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 income tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred income tax assets requires us to weigh all available evidence, including:

- taxable income in prior carry back years if carry back is permitted under the relevant tax law;
- future reversal of existing temporary differences;
- tax-planning strategies that are prudent and feasible; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

After weighing all of the evidence, giving more weight to the evidence that was objectively verifiable, we determined in Fiscal 2020 that it was more likely than not that deferred income tax assets in the U.K., Luxembourg, and Belgium totaling $29.5 million were realizable. Similarly, we determined in Fiscal 2019 that it was more likely than not that deferred income tax assets in Luxembourg, the U.K., and the U.S. totaling $586.2 million were realizable.

In Fiscal 2020, the deferred tax assets above relate primarily to disallowed interest carryforwards of $26 million in these jurisdictions which have no expiration. As a result of changes in estimates of future taxable profits in the third quarter of Fiscal 2020, due primarily to the impact of anticipated changes to the composition of our intercompany financing arrangements, our judgment changed regarding valuation allowances on these deferred tax assets. The change in estimates and resulting change in judgment relate to the evaluation of proposed international tax law changes advanced during the period.

Included within the $586.2 million of valuation allowances released in Fiscal 2019 are deferred income tax assets totaling $579.0 million related to €2.1 billion of indefinite lived net operating losses in Luxembourg for which our evaluation of the positive and negative evidence changed during the first quarter of Fiscal 2019 due to the implementation of our European corporate center. Our European corporate center was implemented in Fiscal 2019 to centralize and strengthen regional operations in Europe, which thereafter became centrally managed from Luxembourg.

As of each reporting date, management considers new evidence, both positive and negative, that could impact our view with regard to the future realization of deferred income tax assets. We will maintain our positions with regard to future realization of deferred income 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 income tax assets may impact materially our consolidated financial statements.

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)	January 2, 2021	December 28, 2019	December 29, 2018
At the beginning of the period	$ 147.3	$ 80.1	$ 106.1
Increases for tax positions related to the current period	6.9	70.6	0.4
Increases for tax positions related to prior periods	0.5	5.8	0.2
Decreases for tax positions related to prior periods	(18.9)	(2.1)	(1.5)
Decreases related to settlements	(14.0)	—	—
Decreases due to lapsed statute of limitations	(5.8)	(8.1)	(21.0)
Foreign currency translation	5.6	1.0	(4.1)
At the end of the period	**$ 121.6**	**$ 147.3**	**$ 80.1**

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 $94.6 million, including all competent authority offsets.

As of January 2, 2021, December 28, 2019, and December 29, 2018, Gates had accrued $12.3 million, $19.6 million, and $13.4 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 the year relates to the settlement of tax audits with Canada and Germany. We believe that it is reasonably possible that a decrease of up to $3.3 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. Additionally, we believe it is reasonably possibly that a decrease of $1 to $2 million in unrecognized tax benefits will occur in the next 12 months as a result of expected settlement of audits in India.

As of January 2, 2021, Gates remains subject to examination in the US for tax years 2015 to 2019 and in other major jurisdictions for tax years 2008 to 2019.

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:

	For the year ended		
(dollars in millions, except share numbers and per share amounts)	January 2, 2021	December 28, 2019	December 29, 2018
Net income attributable to shareholders	$ 79.4	$ 690.1	$ 245.3
Weighted average number of shares outstanding	290,681,615	290,057,360	285,906,693
Dilutive effect of share-based awards	1,434,349	1,570,101	5,791,580
Diluted weighted average number of shares outstanding	**292,115,964**	**291,627,461**	**291,698,273**
Number of anti-dilutive shares excluded from diluted earnings per share calculation	5,257,654	3,679,014	932,515
Basic earnings per share	$ 0.27	$ 2.38	$ 0.86
Diluted earnings per share	$ 0.27	$ 2.37	$ 0.84

8. Inventories

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Raw materials and supplies	$ 135.1	$ 118.9
Work in progress	34.3	33.6
Finished goods	338.8	322.6
Total inventories	**$ 508.2**	**$ 475.1**

9. Property, plant and equipment

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Cost		
Land and buildings	$ 333.0	$ 318.6
Machinery, equipment and vehicles	881.3	819.4
Assets under construction	50.4	49.8
	1,264.7	**1,187.8**
Less: Accumulated depreciation and impairment	(559.7)	(459.9)
Total	**$ 705.0**	**$ 727.9**

During Fiscal 2020, the depreciation expense in relation to the above assets was $89.3 million, compared to $92.3 million during Fiscal 2019 and $87.8 million during Fiscal 2018. During Fiscal 2020 and Fiscal 2019, no interest was capitalized to property, plant and equipment in relation to the construction of qualifying assets, compared to $4.5 million of interest that was capitalized during Fiscal 2018.

During Fiscal 2020, impairments of property, plant and equipment of $5.2 million were recognized, compared to $0.7 million in Fiscal 2019, and $2.7 million in Fiscal 2018, which included $2.1 million reported in restructuring expenses.

Property, plant and equipment includes assets held under finance leases with a carrying amount of $4.1 million as of January 2, 2021, compared to $2.8 million as of December 28, 2019.

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 December 29, 2018	$ 1,374.1	$ 671.8	**$ 2,045.9**
Foreign currency translation	3.4	11.2	**14.6**
As of December 28, 2019	**1,377.5**	**683.0**	**2,060.5**
Foreign currency translation	56.9	2.8	**59.7**
As of January 2, 2021	**$ 1,434.4**	**$ 685.8**	**$ 2,120.2**

11. Intangible assets

	As of January 2, 2021			As of December 28, 2019		
(dollars in millions)	Cost	Accumulated amortization and impairment	Net	Cost	Accumulated amortization and impairment	Net
Finite-lived:						
—Customer relationships	$ 2,073.0	$ (796.9)	**$ 1,276.1**	$ 2,021.8	$ (656.3)	**$ 1,365.5**
—Technology	90.9	(88.5)	**2.4**	90.8	(87.8)	**3.0**
—Capitalized software	89.9	(49.2)	**40.7**	76.1	(38.0)	**38.1**
	2,253.8	**(934.6)**	**1,319.2**	**2,188.7**	**(782.1)**	**1,406.6**
Indefinite-lived:						
—Brands and trade names	513.4	(44.0)	**469.4**	513.4	(44.0)	**469.4**
Total intangible assets	**$ 2,767.2**	**$ (978.6)**	**$ 1,788.6**	**$ 2,702.1**	**$ (826.1)**	**$ 1,876.0**

During Fiscal 2020, Fiscal 2019, and Fiscal 2018, no impairments were recognized. Refer to note 14.D. for additional detail on assets measured at fair value on a non-recurring basis.

During Fiscal 2020, the amortization expense recognized in respect of intangible assets was $129.3 million, compared to $129.9 million for Fiscal 2019 and $130.7 million for Fiscal 2018. In addition, movements in foreign currency exchange rates resulted in an increase in the net carrying value of total intangible assets of $30.8 million in Fiscal 2020, compared to an increase of $3.0 million in Fiscal 2019.

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

Fiscal year	(dollars in millions)
—2021	$ 134.7
—2022	134.5
—2023	130.5
—2024	128.3
—2025	127.0

12. Leases

(dollars in millions)	For the year ended January 2, 2021	For the year ended December 28, 2019
Lease expenses		
Operating lease expenses	$ 29.9	$ 30.3
Finance lease amortization expenses	0.9	0.3
—Interest on lease liabilities	0.1	—
Short-term lease expenses	5.8	4.6
Variable lease expenses	7.0	6.9
Sublease income	—	(0.1)
Total lease expenses	**$ 43.7**	**$ 42.0**
Other information		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 17.7	$ 19.7
Assets obtained in exchange for new finance lease liabilities	$ 2.0	$ 0.9
Cash paid for amounts included in the measurement of lease liabilities:		
—Operating cash flows from operating leases	$ 30.3	$ 26.3
—Financing cash flows from finance leases	1.0	0.4
	$ 31.3	**$ 26.7**
Weighted-average remaining lease term — finance leases	5.3 years	8.5 years
Weighted-average remaining lease term — operating leases	9.4 years	10.1 years
Weighted-average discount rate — finance leases	3.0 %	2.5 %
Weighted-average discount rate — operating leases	5.5 %	5.4 %

Maturity analysis of liabilities

(dollars in millions)	Operating leases	Finance leases
Next 12 months	$ 27.8	$ 1.1
Year 2	22.3	1.1
Year 3	17.9	0.6
Year 4	15.4	0.2
Year 5	13.5	0.1
Year 6 and beyond	77.1	—
Total lease payments	**174.0**	**3.1**
Interest	(40.8)	(0.1)
Total present value of lease liabilities	**$ 133.2**	**$ 3.0**

Balance sheet presentation of leases as of January 2, 2021 and December 28, 2019

(dollars in millions)	As of January 2, 2021 Operating leases	As of January 2, 2021 Finance leases	As of December 28, 2019 Operating leases	As of December 28, 2019 Finance leases
Right-of-use assets	**$ 120.9**	**$ 4.1**	**$ 123.0**	**$ 2.8**
Short-term lease liabilities (included in “Accrued expenses and other current liabilities”)	$ 21.8	$ 0.8	19.5	0.3
Long-term lease liabilities	111.4	2.2	114.8	1.4
Total lease liabilities	**$ 133.2**	**$ 3.0**	**$ 134.3**	**$ 1.7**

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 the year ended January 2, 2021 was $22.8 million, compared to $23.6 million during the year ended December 28, 2019 . 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 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 January 2, 2021					As of December 28, 2019				
(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	$ 1.1	$ —	$ —	$ (42.6)	**$ (41.5)**	$ 4.2	$ —	$ —	$ (19.3)	**$ (15.1)**
—Interest rate caps	—	—	(1.4)	(2.0)	**(3.4)**	—	—	(4.0)	(3.0)	**(7.0)**
—Interest rate swaps	—	—	(13.4)	(43.6)	**(57.0)**	—	—	(5.3)	(29.0)	**(34.3)**
Derivatives not designated as hedging instruments:										
—Currency swaps	—	—	—	—	**—**	—	—	(0.1)	—	(0.1)
—Currency forward contracts	0.6	—	(1.9)	—	**(1.3)**	1.2	—	(0.2)	—	**1.0**
	$ 1.7	**$ —**	**$ (16.7)**	**$ (88.2)**	**$(103.2)**	**$ 5.4**	**$ —**	**$ (9.6)**	**$ (51.3)**	**$ (55.5)**

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 January 2, 2021 and December 28, 2019, the notional principal amount of these contracts was $270.0 million. During July 2019, we extended the maturity of these contracts from March 2020 to March 2022. In addition, as of both January 2, 2021 and December 28, 2019, we had designated €147.0 million of our Euro-denominated debt as a net investment hedge of certain of our European operations.

The fair value gains (losses) 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)	January 2, 2021	December 28, 2019	December 29, 2018
Net fair value (losses) gains recognized in OCI in relation to:			
—Euro-denominated debt	$ (15.5)	$ (0.2)	$ (11.0)
—Designated cross currency swaps	(26.3)	5.7	20.8
Total net fair value (losses) gains	**$ (41.8)**	**$ 5.5**	**$ 9.8**

During the year ended January 2, 2021, a net gain of $3.7 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 $7.8 million and $2.5 million during the year ended December 28, 2019 and December 29, 2018, 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. These instruments are all designated as cash flow hedges. As of January 2, 2021 and December 28, 2019, we held pay-fixed, receive-floating interest rate swaps with an aggregate notional amount of $870.0 million. During June 2020, we extended these swaps, which originally ran from June 30, 2020 through June 30, 2023, to now run from June 30, 2020 to June 30, 2025, locking in a lower blended fixed rate. The new, extended swaps have been designated as hedging instruments and the $53.7 million of losses accumulated in OCI in relation to the previously designated swaps are being reclassified into earnings over the term of the original swaps.

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 2, 2021 the notional amount of our interest rate caps outstanding was €425.0 million, covering the period from July 1, 2019 to June 30, 2023, compared to $1.7 billion as of December 28, 2019, which included two interest rate caps that expired on June 30, 2020.

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Movement recognized in OCI in relation to:			
—Fair value loss on cash flow hedges	$ (29.1)	$ (31.7)	$ (4.5)
—Amortization to net income of prior period fair value losses	9.1	—	—
—Deferred premium reclassified from OCI to net income	3.6	2.5	5.4
Total movement	**$ (16.4)**	**$ (29.2)**	**$ 0.9**

As of January 2, 2021, we expect to reclassify an estimated $21.5 million in OCI, net of taxes, 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 January 2, 2021, the notional principal amount of outstanding currency swaps that are used to manage the currency profile of Gates' cash was $0 million, compared to $16.7 million as of December 28, 2019.

As of January 2, 2021, the notional amount of outstanding currency forward contracts that are used to manage operational foreign exchange exposures was $87.6 million, compared to $82.5 million as of December 28, 2019.

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Fair value (losses) gains recognized in relation to:			
—Currency forward contracts recognized in SG&A	$ (1.9)	$ 3.0	$ 2.4
—Currency swaps recognized in other (income) expenses	0.4	0.6	0.6
Total	**$ (1.5)**	**$ 3.6**	**$ 3.0**

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, 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 January 2, 2021		As of December 28, 2019	
(dollars in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Current	$ 42.7	$ 42.3	$ 46.1	$ 45.9
Non-current	2,666.0	2,700.0	2,912.3	2,946.8
	$ 2,708.7	**$ 2,742.3**	**$ 2,958.4**	**$ 2,992.7**

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 1% LIBOR floor on the Dollar Term Loan and a 0% EURIBOR floor on the Euro Term Loan. 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 January 2, 2021			
Equity investments	$ 2.1	$ —	**$ 2.1**
Derivative assets	$ —	$ 1.7	**$ 1.7**
Derivative liabilities	$ —	$ (104.9)	**$ (104.9)**
As of December 28, 2019			
Equity investments	$ 1.1	$ —	**$ 1.1**
Derivative assets	$ —	$ 5.4	**$ 5.4**
Derivative liabilities	$ —	$ (60.9)	**$ (60.9)**

Available-for-sale securities 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 the year ended January 2, 2021, 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. No significant impairment was recognized during either the year ended December 28, 2019 or the year ended December 29, 2018.

15. Debt

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Secured debt:		
—Dollar Term Loan	$ 1,377.4	$ 1,699.1
—Euro Term Loan	775.2	717.7
Unsecured debt:		
—6.25% Dollar Senior Notes due 2026	568.0	568.0
—Other loans	0.2	0.2
Total principal of debt	**2,720.8**	**2,985.0**
Deferred issuance costs	(29.4)	(41.8)
Accrued interest	17.3	15.2
Total carrying value of debt	**2,708.7**	**2,958.4**
Debt, current portion	42.7	46.1
Debt, less current portion	**$ 2,666.0**	**$ 2,912.3**

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	
—2021	$ 25.4
—2022	25.3
—2023	25.2
—2024	2,076.9
—2025	—
Thereafter	568.0
	$ 2,720.8

Debt issuances and redemptions

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

On November 22, 2019, we issued and sold $568.0 million of unsecured Dollar Senior Notes, described further below. The proceeds from this debt issuance were used on December 5, 2019 to redeem all $568.0 million of our outstanding 6.00% Dollar Senior Notes, plus interest accrued up to and including the redemption date of $13.2 million. The majority of the costs totaling approximately $8.6 million related to the refinancing transactions have been deferred and will be amortized to interest expense over the remaining term of the related borrowings using the effective interest method.

Dollar and Euro Term Loans

Our secured credit facilities include a Dollar Term Loan credit facility and a Euro Term Loan credit facility that were drawn on July 3, 2014. The maturity date for each of the term loan facilities is March 31, 2024. 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 plus an applicable margin. The Euro Term Loan bears interest at EURIBOR subject to a floor of 0%, plus a margin of 3.00%.

The Dollar Term Loan interest rate is currently LIBOR, subject to a floor of 1.00%, plus a margin of 2.75%, and as of January 2, 2021, borrowings under this facility bore interest at a rate of 3.75% per annum. The Dollar Term Loan interest rate is re-set on the last business day of each month. As of January 2, 2021, the Euro Term Loan bore interest at EURIBOR, which is currently below 0%, subject to a floor of 0%, plus a margin of 3.00%. The Euro Term Loan interest rate is re-set on the last business day of each quarter.

Both term loans are subject to quarterly amortization payments of 0.25%, based on the original principal amount less certain prepayments with the balance payable on maturity. During the year ended January 2, 2021, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $21.7 million and $9.4 million, respectively. During the year ended December 28, 2019, we made amortization payments against the Dollar Term Loan and the Euro Term Loan of $17.3 million and $7.4 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 2020 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 2021.

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 gains (losses) were recognized in OCI.

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
(Loss) gain recognized in statement of operations	$ (51.4)	$ 17.3	$ 43.6
Loss recognized in OCI	(15.5)	(0.2)	(6.0)
Total (loss) gain	**$ (66.9)**	**$ 17.1**	**$ 37.6**

The above net foreign exchange (losses) gains recognized in the Other (income) expenses 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 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 January 2, 2021, 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.

On and after January 15, 2022, 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:	
—2022	103.125 %
—2023	101.563 %
—2024 and thereafter	100.000 %

Additionally, net cash proceeds from an equity offering can be utilized at any time prior to January 15, 2022, to redeem up to 40% of the notes at a redemption price equal to 106.250% of the principal amount thereof, plus accrued and unpaid interest through to the redemption date.

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.

Up to the date of their redemption on January 31, 2018, foreign exchange losses of $9.2 million were recognized in respect of the Euro Senior Notes. Of these losses, $5.0 million was recognized in OCI for the period during which the facility was designated as a net investment hedge of certain of our Euro investments, and $4.2 million was recognized in the statement of operations.

Revolving credit facility

We also have a secured revolving credit facility, maturing on January 29, 2023, that provides for multi-currency revolving loans up to an aggregate principal amount of $185.0 million, with a letter of credit sub-facility of $20.0 million.

As of both January 2, 2021 and December 28, 2019, 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 have a revolving credit facility backed by certain of our assets in North America. The facility allows for loans of up to a maximum of $325.0 million ($230.2 million as of January 2, 2021, compared to $294.6 million as of December 28, 2019, based on the values of the secured assets on those dates) with a letter of credit sub-facility of $150.0 million within this maximum. The facility matures on January 29, 2023.

As of both January 2, 2021 and December 28, 2019, there were no drawings for cash under the asset-backed revolver, but there were letters of credit outstanding of $28.5 million and $50.1 million, 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 January 2, 2021	As of December 28, 2019
Accrued compensation	$ 70.0	$ 47.3
Current portion of lease obligations	22.6	19.8
Derivative financial instruments	104.9	60.9
Payroll and related taxes payable	25.0	11.3
VAT and other taxes payable	11.7	11.5
Warranty reserve	19.8	17.7
Restructuring reserve	17.9	2.9
Workers' compensation reserve	8.8	10.0
Other accrued expenses and other liabilities	92.5	92.1
	$ 373.2	**$ 273.5**

The above liabilities are presented in Gates' balance sheet within other current liabilities and other non-current liabilities as follows:

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
—Accrued expenses and other current liabilities	$ 252.2	$ 188.8
—Other non-current liabilities	121.0	84.7
	$ 373.2	**$ 273.5**

Warranty reserves

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Balance at the beginning of the period	$ 17.7	$ 14.3	$ 14.1
Charge for the period	11.8	16.5	11.6
Utilized during the period	(9.5)	(10.9)	(11.0)
Released during the period	(0.7)	(2.2)	(0.1)
Foreign currency translation	0.5	—	(0.3)
Balance at the end of the period	**$ 19.8**	**$ 17.7**	**$ 14.3**

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 2021, 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 2020, the expense recognized by Gates in respect of defined contribution pension plans was $19.0 million, compared to $17.9 million in Fiscal 2019 and $19.1 million in Fiscal 2018.

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 recognized in respect of defined benefit pension plans is presented in the balance sheet as follows:

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Pension surplus	$ (69.3)	$ (38.1)
Accrued expenses and other current liabilities	2.3	2.3
Post-retirement benefit obligations	91.5	98.7
Net unfunded pension obligation	**$ 24.5**	**$ 62.9**
Plans whose projected benefit obligation was in excess of plan assets:		
—Aggregate projected benefit obligation	$ 376.3	$ 391.7
—Aggregate fair value of plan assets	$ 282.5	$ 290.7
Plans whose accumulated benefit obligation was in excess of plan assets:		
—Aggregate accumulated benefit obligation	$ 371.6	$ 381.6
—Aggregate fair value of plan assets	$ 281.9	$ 286.2

During the year ended January 2, 2021, the net unfunded pension obligation decreased by $38.4 million. This decrease was driven primarily by the actual return on plan assets of $83.0 million, offset partially by an actuarial loss of $31.3 million and interest on the benefit obligation of $18.3 million.

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)	January 2, 2021	December 28, 2019
Benefit obligation at the beginning of the period	$ 898.1	$ 827.1
Employer service cost	5.6	5.5
Plan participants' contributions	0.2	0.2
Plan amendments	1.5	—
Interest cost	18.3	23.4
Net actuarial loss	31.3	83.1
Benefits paid	(44.6)	(51.6)
Expenses paid from assets	(2.0)	(2.3)
Curtailments and settlements	(30.6)	(3.6)
Foreign currency translation	28.1	16.3
Benefit obligation at the end of the period	**$ 905.9**	**$ 898.1**
Accumulated benefit obligation	**$ 901.6**	**$ 892.4**

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 January 2, 2021	For the year ended December 28, 2019
Plan assets at the beginning of the period	$ 835.2	$ 774.9
Actual return on plan assets	83.0	90.4
Employer contributions	9.8	8.5
Plan participants' contributions	0.2	0.2
Settlements	(29.2)	(2.3)
Benefits paid	(44.6)	(51.6)
Expenses paid from assets	(2.0)	(2.3)
Foreign currency translation	29.0	17.4
Plan assets at the end of the period	**$ 881.4**	**$ 835.2**

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 January 2, 2021				As of December 28, 2019			
(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	$ —	$ 144.1	$ —	**$ 144.1**	$ —	$ 102.7	$ —	**$ 102.7**
Debt Securities								
—Corporate bonds	—	190.6	—	**190.6**	—	207.9	—	**207.9**
—Government bonds	—	249.5	—	**249.5**	—	231.3	—	**231.3**
Annuities and insurance	—	49.4	239.4	**288.8**	—	48.7	235.9	**284.6**
Cash and cash equivalents	8.4	—	—	**8.4**	8.7	—	—	**8.7**
Total	**$ 8.4**	**$ 633.6**	**$ 239.4**	**$ 881.4**	**$ 8.7**	**$ 590.6**	**$ 235.9**	**$ 835.2**

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:

	For the year ended	
(dollars in millions)	January 2, 2021	December 28, 2019
Fair value at the beginning of the period	$ 235.9	$ 224.0
Actual return on plan assets	11.2	17.9
Purchases	0.9	1.4
Sales	(6.7)	(0.9)
Impacts of benefits paid	(12.6)	(12.3)
Settlements	(0.4)	—
Foreign currency translation	11.1	5.8
Fair value at the end of the period	**$ 239.4**	**$ 235.9**

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 2021, Gates expects to contribute approximately $10.6 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)	
Fiscal year	
—2021	$ 45.3
—2022	46.3
—2023	45.8
—2024	45.7
—2025	50.7
—2026 through 2030	228.4

Net periodic benefit cost

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Employer service cost	$ 5.6	$ 5.5	$ 5.3
Settlements and curtailments	(2.1)	(0.6)	0.3
Interest cost	18.3	23.4	23.6
Expected return on plan assets	(22.0)	(27.8)	(22.6)
Amortization of prior net actuarial loss	0.2	—	0.1
Amortization of prior service cost	0.8	0.8	0.1
Net periodic benefit cost	**$ 0.8**	**$ 1.3**	**$ 6.8**

Other comprehensive income

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

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Current period net actuarial (gain) loss	$ (32.6)	$ 20.5	$ 1.2
Amortization of prior net actuarial loss	(0.2)	—	(0.1)
Prior service cost	1.5	—	11.4
Amortization of prior service cost	(0.8)	(0.8)	(0.1)
Gain (loss) recognized due to settlements and curtailments	2.1	(0.8)	(0.3)
Pre-tax changes recognized in OCI other than foreign currency translation	**(30.0)**	**18.9**	**12.1**
Foreign currency translation	1.7	1.0	(0.1)
Total pre-tax changes recognized in OCI	**$ (28.3)**	**$ 19.9**	**$ 12.0**

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:

(dollars in millions)	For the year ended January 2, 2021	December 28, 2019	December 29, 2018
Actuarial (gain) loss	$ (9.5)	$ 21.2	$ 1.5
Prior service costs	11.8	11.1	11.9
Foreign currency translation	(1.2)	(2.9)	(3.9)
Cumulative total	**$ 1.1**	**$ 29.4**	**$ 9.5**

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 January 2, 2021	As of December 28, 2019
Benefit obligation:		
—Discount rate	1.527 %	2.261 %
—Rate of salary increase	3.032 %	3.173 %
Net periodic benefit cost:		
—Discount rate	2.144 %	2.932 %
—Rate of salary increase	3.170 %	3.190 %
—Expected return on plan assets	2.832 %	3.622 %

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 January 2, 2021	As of December 28, 2019
Accrued expenses and other current liabilities	$ 5.7	$ 5.4
Post-retirement benefit obligations	51.0	52.5
	$ 56.7	**$ 57.9**

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)	January 2, 2021	December 28, 2019
Benefit obligation at the beginning of the period	$ 57.9	$ 60.0
Interest cost	1.7	2.3
Actuarial loss (gain)	0.3	(1.8)
Benefits paid	(3.7)	(3.5)
Foreign currency translation	0.5	0.9
Benefit obligation at the end of the period	**$ 56.7**	**$ 57.9**
Accumulated benefit obligation	**$ 56.7**	**$ 57.9**

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 2021, Gates expects to contribute approximately $5.8 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)	
Fiscal years:	
—2021	$ 5.8
—2022	4.8
—2023	4.5
—2024	4.2
—2025	3.9
—2026 through 2030	16.6

Net periodic benefit cost

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Interest cost	$ 1.7	$ 2.3	$ 2.2
Amortization of prior net actuarial gain	(1.0)	(0.8)	(0.4)
Amortization of prior service credit	(0.4)	(0.4)	(0.4)
Net periodic benefit cost	**$ 0.3**	**$ 1.1**	**$ 1.4**

The net periodic benefit 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 January 2, 2021	December 28, 2019	December 29, 2018
Current period net actuarial loss (gain)	$ 0.3	$ (1.8)	$ (4.8)
Amortization of prior net actuarial gain	1.0	0.8	0.4
Prior service credit	—	—	—
Amortization of prior service credit	0.4	0.4	0.4
Pre-tax changes recognized in OCI other than foreign currency translation	**1.7**	**(0.6)**	**(4.0)**
Foreign currency translation	—	(0.2)	—
Total pre-tax changes recognized in OCI	**$ 1.7**	**$ (0.8)**	**$ (4.0)**

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 January 2, 2021	December 28, 2019	December 29, 2018
Actuarial gains	$ (16.0)	$ (17.3)	$ (16.3)
Prior service credits	(3.0)	(3.4)	(3.8)
Other adjustments	0.2	0.2	0.2
Foreign currency translation	(0.2)	(0.2)	—
Cumulative total	**$ (19.0)**	**$ (20.7)**	**$ (19.9)**

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 January 2, 2021	As of December 28, 2019	As of January 2, 2021	As of December 28, 2019
Discount rate	2.30 %	3.08 %	3.08 %	4.01 %

The initial healthcare cost trend rate as of January 2, 2021, starts at 6.14%, compared to 6.56% as of December 28, 2019, with an ultimate trend rate of 4.92%, compared to 4.93% as of December 28, 2019, beginning in 2023.

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 the year ended January 2, 2021, we recognized a charge of $19.8 million, compared to $15.0 million and $6.0 million in Fiscal 2019 and Fiscal 2018, 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 The Blackstone Group Inc. ("Blackstone" or our "Sponsor"), at the time of a defined liquidity event, which is also subject to the participant's continued provision of service to Gates on the vesting date. The performance conditions associated with Tiers II, III and IV must 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.

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.

In addition to the above, in 2017, under the same plan, the Company issued 76,293 restricted stock units ("RSUs"). These RSUs vest evenly over three years from the date of grant, subject to the participant's continued provision of service to Gates on the vesting date. The awards expire ten years after the date of grant, in December 2027.

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 a new equity-based compensation 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, three or four years from the date of grant, subject to the participant's continued provision of service to Gates on the vesting date. The PRSUs 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.

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

Summary of movements in options outstanding

	Plan	Year ended January 2, 2021 Number of options	Weighted average exercise price $
Outstanding at the beginning of the period:			
—Tier I	*2014 Plan*	3,825,855	$ 7.07
—Tier II	*2014 Plan*	4,405,340	$ 7.01
—Tier III	*2014 Plan*	4,405,340	$ 7.01
—Tier IV	*2014 Plan*	4,405,340	$ 10.52
—SARs	*Both plans*	772,450	$ 8.72
—Share options	*2018 Plan*	1,610,485	$ 16.69
—Premium-priced options	*2018 Plan*	796,460	$ 19.00
		20,221,270	**$ 9.09**
Granted during the period:			
—SARs	*2018 Plan*	69,361	$ 12.08
—Share options	*2018 Plan*	1,205,369	$ 12.54
		1,274,730	**$ 12.51**
Forfeited during the period:			
—Tier I	*2014 Plan*	(149,522)	$ 9.56
—Tier II	*2014 Plan*	(625,873)	$ 7.76
—Tier III	*2014 Plan*	(625,873)	$ 7.76
—Tier IV	*2014 Plan*	(625,873)	$ 11.63
—Share options	*2018 Plan*	(188,102)	$ 16.31
		(2,215,243)	**$ 9.70**
Expired during the period:			
—Tier I	*2014 Plan*	(41,961)	$ 13.44
—Share options	*2018 Plan*	(62,686)	$ 17.19
		(104,647)	**$ 15.68**
Exercised during the period:			
—Tier I	*2014 Plan*	(468,890)	$ 6.65
		(468,890)	**$ 6.65**
Outstanding at the end of the period:			
—Tier I	*2014 Plan*	3,165,482	$ 6.93
—Tier II	*2014 Plan*	3,779,467	$ 6.89
—Tier III	*2014 Plan*	3,779,467	$ 6.89
—Tier IV	*2014 Plan*	3,779,467	$ 10.34
—SARs	*Both plans*	841,811	$ 9.00
—Share options	*2018 Plan*	2,565,066	$ 14.75
—Premium-priced options	*2018 Plan*	796,460	$ 19.00
		18,707,220	**$ 9.28**
Exercisable at the end of the period		3,394,050	$ 8.47
Vested and expected to vest at the end of the period		7,343,504	$ 11.19

As of January 2, 2021, the aggregate intrinsic value of options that were vested or expected to vest was $22.2 million, and these options had a weighted average remaining contractual term of 6.6 years. As of January 2, 2021, the aggregate intrinsic value of options that were exercisable was $16.8 million, and these options had a weighted average remaining contractual term of 5.3 years.

As of January 2, 2021, the unrecognized compensation charge relating to the nonvested options other than Tier II, Tier III and Tier IV options, was $6.8 million, which is expected to be recognized over a weighted-average period of 1.9 years. The unrecognized compensation charge relating to the nonvested Tier II, Tier III and Tier IV options was $24.4 million, which will be recognized on occurrence of a liquidity event as described above.

During the year ended January 2, 2021, cash of $3.1 million was received in relation to the exercise of vested options, compared to $1.8 million and $0.6 million during the year ended December 28, 2019 and the year ended December 29, 2018, respectively. The aggregate intrinsic value of options exercised during the year ended January 2, 2021 was $2.5 million compared to $2.1 million and $0.8 million during the year ended December 28, 2019 and the year ended December 29, 2018, respectively.

Summary of movements in RSUs and PRSUs outstanding

		Year ended January 2, 2021	
	Plan	Number of awards	Weighted average grant date fair value $
Outstanding at the beginning of the period:			
—RSUs	*Both plans*	718,269	$ 16.20
—PRSUs	*2018 Plan*	248,550	$ 20.07
		966,819	**$ 17.20**
Granted during the period:			
—RSUs	*2018 Plan*	1,226,544	$ 11.79
—PRSUs	*2018 Plan*	365,258	$ 14.41
		1,591,802	**$ 12.39**
Forfeited during the period:			
—RSUs	*2018 Plan*	(103,034)	$ 14.64
—PRSUs	*2018 Plan*	(42,158)	$ 20.07
		(145,192)	**$ 16.21**
Vested during the period:			
—RSUs	*Both plans*	(257,869)	$ 16.27
		(257,869)	**$ 16.27**
Outstanding at the end of the period:			
—RSUs	*2018 Plan*	1,583,910	$ 12.88
—PRSUs	*2018 Plan*	571,650	$ 16.45
		2,155,560	**$ 13.83**

As of January 2, 2021, the unrecognized compensation charge relating to nonvested RSUs and PRSUs was $13.2 million, which is expected to be recognized over a weighted average period of 1.8 years, subject, where relevant, to the achievement of the performance conditions described above. The total fair value of RSUs and PRSUs vested during the year ended January 2, 2021 was $3.1 million compared to $0.6 million during the year ended December 28, 2019.

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 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		
	January 2, 2021	December 28, 2019	December 29, 2018
Weighted average grant date fair value:			
—SARs	$ 4.59	$ 5.88	$ 6.44
—Share options	$ 4.78	$ 5.88	$ 7.44
—Premium-priced options	n/a	$ 5.65	n/a
—RSUs	$ 11.79	$ 16.28	$ 16.97
—PRSUs	$ 14.41	$ 20.07	n/a
Inputs to the model:			
—Expected volatility - SARs	37.7 %	31.9 %	38.9 %
—Expected volatility - share options	37.7 %	31.9 %	39.6 %
—Expected volatility - premium-priced options	n/a	31.9 %	n/a
—Expected volatility - PRSUs	40.4 %	32.8 %	n/a
—Expected option life for SARs	6.0	6.0	6.3
—Expected option life for share options	6.0	6.0	6.3
—Expected option life for premium-priced options	n/a	7.0	n/a
—Risk-free interest rate:			
SARs	1.25 %	2.51 %	2.89 %
Share options	1.33 %	2.51 %	2.80 %
Premium-priced options	n/a	2.53 %	n/a
PRSUs	1.29 %	2.48 %	n/a

19. Equity

Movements in the Company’s number of shares in issue for the year ended January 2, 2021 and December 28, 2019, respectively, were as follows:

	For the year ended	
(number of shares)	January 2, 2021	December 28, 2019
Balance as of the beginning of the period	290,157,299	289,847,574
Exercise of share options	468,890	270,997
Vesting of restricted stock units, net of withholding taxes	226,878	38,728
Balance as of the end of the period	**290,853,067**	**290,157,299**

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

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)	Available-for-sale investments	Post-retirement benefit	Cumulative translation adjustment	Cash flow hedges	Accumulated OCI attributable to shareholders	Non-controlling interests	Accumulated OCI
As of December 30, 2017	**$ (0.3)**	**$ 13.2**	**$ (742.8)**	**$ (17.5)**	**$ (747.4)**	**$ (25.5)**	**$ (772.9)**
Foreign currency translation	—	—	(107.2)	—	**(107.2)**	(17.9)	**(125.1)**
Cash flow hedges movements	—	—	—	5.6	**5.6**	—	**5.6**
Post-retirement benefit movements	—	(5.6)	—	—	**(5.6)**	(0.2)	**(5.8)**
Other comprehensive (loss) income	**—**	**(5.6)**	**(107.2)**	**5.6**	**(107.2)**	**(18.1)**	**(125.3)**
Reclassification to retained earnings on adoption of ASU 2016-01 "Financial Instruments"	0.3	**—**	**—**	**—**	**0.3**	**—**	**0.3**
As of December 29, 2018	**—**	**7.6**	**(850.0)**	**(11.9)**	**(854.3)**	**(43.6)**	**(897.9)**
Foreign currency translation	—	—	37.7	—	**37.7**	(2.8)	**34.9**
Cash flow hedges movements	—	—	—	(24.9)	**(24.9)**	—	**(24.9)**
Post-retirement benefit movements	—	(16.9)	—	—	**(16.9)**	0.4	**(16.5)**
Other comprehensive (loss) income	**—**	**(16.9)**	**37.7**	**(24.9)**	**(4.1)**	**(2.4)**	**(6.5)**
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)**

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 Transaction and 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 the year ended January 2, 2021, Gates incurred $1.9 million, compared to $6.5 million during Fiscal 2019 and $8.0 million during Fiscal 2018, in respect of these oversight services and out-of-pocket expenses, of which there was no amount owing at January 2, 2021 or December 28, 2019.

In addition, 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.

B. Commercial transactions with sponsor portfolio companies

Our Sponsor and its affiliates have ownership interests in a broad range of companies. We have entered and may in the future enter into commercial transactions in the ordinary course of our business with some of these companies, including the sale of goods and services and the purchase of goods and services.

During the periods presented, our Sponsor held an interest in Custom Truck One Source ("Custom Truck"), a provider of specialized truck and heavy equipment solutions in North America, Stow International ("Stow"), a provider of storage and warehousing services worldwide, and Blue Yonder (formerly, JDA Software), a provider of supply chain software. Net sales by Gates to Custom Truck were $0.2 million during Fiscal 2020, compared to $0.2 million during Fiscal 2019 and $0 million during Fiscal 2018. Net purchases by Gates from Stow were $0.7 million during Fiscal 2020, compared to $0 million during Fiscal 2019 and $0 million during Fiscal 2018. Net purchases by Gates from Blue Yonder were $0.2 million during Fiscal 2020, compared to $0 million during Fiscal 2019 and $0 million during Fiscal 2018.

C. Equity method investees

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

	For the year ended		
(dollars in millions)	January 2, 2021	December 28, 2019	December 29, 2018
Sales	$ 0.9	$ 1.4	$ 1.6
Purchases	$ (13.8)	$ (15.4)	$ (15.2)

Amounts outstanding in respect of these transactions were payables of $0.6 million as of January 2, 2021, compared to $0.2 million as of December 28, 2019. During the year ended January 2, 2021, we received dividends of $0 million from our equity method investees, compared to $0 million during Fiscal 2019 and $0.4 million during Fiscal 2018.

D. 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)	January 2, 2021	December 28, 2019	December 29, 2018
Sales	$ 47.5	$ 51.3	$ 60.6
Purchases	$ (18.5)	$ (20.5)	$ (20.7)

Amounts outstanding in respect of these transactions were as follows:

(dollars in millions)	As of January 2, 2021	As of December 28, 2019
Receivables	$ 0.4	$ 4.2
Payables	$ (4.5)	$ (5.9)

E. Majority-owned subsidiaries

In early 2019, we finalized an agreement with the non-controlling interest holder in certain of our consolidated, majority-owned subsidiaries, regarding the scope of business of such subsidiaries, which will result in a smaller share of net income allocated to non-controlling interests. This change is retrospectively effective from the beginning of 2019 and includes a one-time adjustment of $15.0 million, which has been recorded in the first quarter of 2019 in the non-controlling interests line in the consolidated statement of operations.

22. Commitments and contingencies

A. Capital and other commitments

As of January 2, 2021, we had entered into contractual commitments for the purchase of property, plant and equipment amounting to $3.5 million, compared to $5.3 million as of December 28, 2019, and for the purchase of non-integral computer software amounting to $0.6 million, compared to $1.9 million as of December 28, 2019. As of January 2, 2021, we had entered into contractual commitments for non-capital items such as raw materials and supplies amounting to $26.1 million, compared to $33.7 million as of December 28, 2019.

B. Performance bonds, letters of credit and bank guarantees

As of January 2, 2021, letters of credit were outstanding against the asset-backed revolving facility amounting to $28.5 million, compared to $50.1 million as of December 28, 2019. We had additional outstanding performance bonds, letters of credit and bank guarantees amounting to $6.0 million as of January 2, 2021, compared to $4.1 million as of December 28, 2019.

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 January 2, 2021, the surrender value of the policies was $954.9 million, compared to $933.8 million as of December 28, 2019, and the amount outstanding on the related loans was $953.2 million, compared to $932.0 million as of December 28, 2019. For financial reporting purposes, these amounts are offset as a legal right of offset exists and the net receivable of $1.7 million, compared to $1.8 million as of December 28, 2019, is included in other receivables.

D. Contingencies

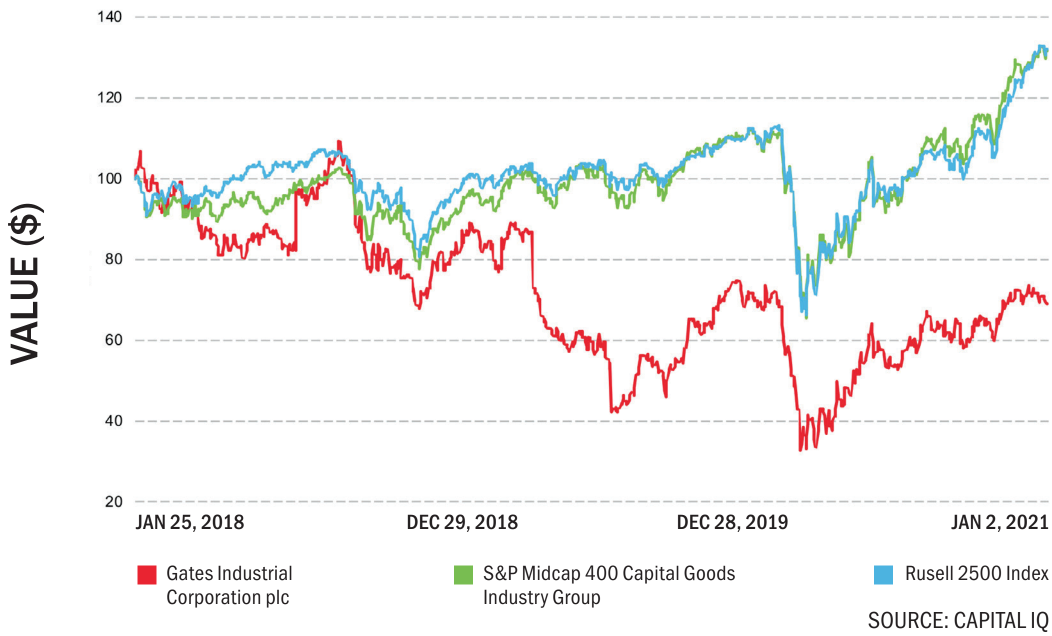
The Company is, from time to time, party to general legal proceedings and claims, which arise in the ordinary course of business including those relating to environmental obligations, product liability, intellectual property, commercial and contractual disputes, employment matters and other business 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 set forth by 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)	January 2, 2021	December 28, 2019	December 29, 2018
Balance at beginning of year	$ 8.6	$ 7.4	$ 6.8
Current period provision for expected credit losses	0.7	2.4	1.4
Write-offs charged against allowance	(4.3)	(1.3)	(0.5)
Foreign currency translation	0.2	0.1	(0.3)
Balance at end of year	**$ 5.2**	**$ 8.6**	**$ 7.4**

TOTAL SHAREHOLDER RETURN



This graph shows the value, through January 2, 2021, of $100 invested in Gates Industrial Corporation plc on January 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.

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