

Operator: Greetings, and welcome to the Helios Technologies Fourth Quarter and Full Year 2018 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Karen Howard, Investor Relations, Helios Technologies. Thank you, Ms. Howard. You may begin.

Karen L. Howard: Thank you, Jerry, and good morning, everyone. Welcome to the Helios Technologies, formerly known as Sun Hydraulics, Fourth Quarter and Full Year 2018 Financial Results Conference Call. On the line with me are Wolfgang Dangel, our President and Chief Executive Officer; and Tricia Fulton, our Chief Financial Officer. Wolfgang and Tricia will be reviewing the results that were published in the press release distributed after yesterday's market close. If you do not have that release, it's available on our website at www.heliostechnologies.com. You'll also find slides there that will accompany our discussions today.

If you look through the slide deck, on Slide 2 you'll find our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and also during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables that accompany today's earnings release as well as in the slides.

Wolfgang will get started with summarizing key highlights for 2018. Tricia will go through the details of our financial results for the quarter and the year, and then we'll turn it back to Wolfgang for his perspective on our outlook and 2019 guidance before we open up the line for questions and answers. And with that, it's now my pleasure to introduce Wolfgang.

Wolfgang H. Dangel: Thank you, Karen. Good morning, everyone.

I will start on **Slide 3**. 2018 has certainly been a very busy and exciting year for our Helios associates around the globe. Over the past two years we have made considerable progress as we are executing the Vision 2025 strategic plan that we laid out to you at the end of 2016.

I will start with summarizing our financial results. We achieved 2018 sales of \$508 million. That reflects almost a 50% increase over 2017 and is about two and a half times more than 2016. In addition to acquisition growth during this period, we have also been experiencing significant organic growth; 11% was realized in 2018 after an amazing 21% organic growth rate in 2017.

Turning to the bottom line on a non-GAAP basis, we realized \$1.74 per share in 2018, up 9% from 2017 and almost double the \$0.93 per share we reported for 2016. That excludes acquisition-related and other one-time-type items, but it does include amortization expense, consistent with how we have been reporting non-GAAP EPS all year.

As a heads up, beginning in 2019 we plan to start reporting our non-GAAP net income and EPS on a normalized cash basis, excluding our acquisition-related amortization expense. We'll talk more about that shortly.

We are generally pleased with our operating margins for the year, but recognize that we have room for improvement, which I will touch on later in this presentation. Our 2018 adjusted operating margin was 21.4% and adjusted EBITDA margin was 24.5%. These reflect modest erosion compared with our 2017 results, at 110 basis points and 90 basis points, respectively. However, both metrics reflect improvement over our 2016 results.

Finally, I want to point out that, as we expected, we generated strong cash flow in the fourth quarter. This allowed us to reduce our net debt by nearly \$20 million and finish the year at our target levels of 15% operating cash flow to sales and 10% free cash flow to sales. Additionally, we made significant progress toward our leverage goal of less than 2x EBITDA. We finished the year at 2.4x.

Please turn to **Slide 4** and I'll summarize the key milestones we achieved in 2018 from a business perspective. We reflect back on the year as one in which we diversified significantly, from expanding our end markets, to product breadth, to global footprint, to customer base. Allow me to summarize 2018.

About a year ago we raised capital in the equity market and then we amended our bank credit facility. This additional capital financed our acquisition of Faster and provides for further growth.

Faster was a strategic and transformational acquisition, providing us with a solid manufacturing footprint in Europe from which to expand our European presence in accordance with our 'in the region, for the region' philosophy. Along with a very innovative culture, it brought us a global and market-leading family of quick-release couplings, strong relationships with new OEMs and solid penetration in the agriculture market, which is very important to us. Since that time our teams have been diligently working on the synergies we identified, targeting at least \$7.5 million of incremental EBITDA by 2022, mostly driven by sales opportunities.

Also in April of 2018 we began our CVT manufacturing consolidation project in Sarasota. In applying our LEAN enterprise principles, we have been diligently moving production lines amongst our three facilities in Sarasota to consolidate our manufacturing into our two adjacent plants. We expect to complete this part of the project by the end of next month. Over the course of the year, as we fine tune our newly organized production line, we expect our productivity to improve and free up about 15% of additional capacity. In the next phase of this project, which we expect to complete by the end of 2019, we are establishing a center of excellence in our third Sarasota facility, which is about two miles from the other two. It will house our hydraulic research and testing activities for the Americas region, as well as certain administrative and operating activities.

During the second half of 2018 we announced our new business name as Helios Technologies. This was strategically important to us, as we maintain Sun Hydraulics as the operating name for one of our businesses, complemented by our other operating businesses, Enovation Controls and Faster.

At nearly the same time, we announced our acquisition of Custom Fluidpower, or CFP. This was not significant in terms of size relative to Helios, but it is very significant in terms of its strategic importance to us. CFP is an innovative hydraulic integrator with eight locations based in Australia. Prior to closing on the acquisition we referred to this project as Stepping Stone, since we viewed it as exactly that, a stepping stone for us in the Southeast Asia region, a base from which to build our other businesses. Since its acquisition we have been diligently working on the synergies we identified, targeting at least \$2 million of incremental EBITDA by 2022, mostly driven by sales opportunities.

At about the same time, in August 2018, we started production at our new state-of-the-art facility in South Korea, serving our CVT business. From purchasing the land to getting it up and running, we completed this project in just 11 months. We previously leased space nearby, but this new owned facility provides us with about four and a half times more square footage from which to service the fast-growing Asia-Pacific region.

In addition to the achievements of these specific milestones, our associates were very busy with many other projects during 2018. A key one, which is very broad and encompasses several teams of different people, is focusing on realizing the synergies from the acquisitions. In addition to Faster and CFP, which I already mentioned, we have been working hard on the synergies from our Enovation Controls acquisition, which we have targeted to achieve at least \$5 million of incremental EBITDA by 2020.

On a day-to-day basis, we have also been focused on productivity improvement and our progress is evident, particularly in the second half of the year.

At the same time we have continued to work on our organic growth initiatives, including penetrating geographic white spots, identifying new sales opportunities in the field and introducing new products to be responsive to market trends.

All of these actions are in alignment with our Vision 2025 plan, which we announced back in late 2016, to achieve global technology leadership in the industrial goods sector with critical mass exceeding \$1 billion in sales while maintaining superior profitability and financial strength.

With that overview, I will now turn the call over to Tricia to review the financial results for the quarter and full year in a bit more detail.

Tricia L. Fulton: Thank you, Wolfgang, and good morning, everyone.

Let's begin on **Slide 6** with a review of our fourth quarter consolidated results. Sales were up 65% compared with last year's quarter. Faster contributed \$36 million. CFP contributed \$11.9 million, and our organic business sales grew 8%. Foreign currency had a \$400,000 unfavorable impact on consolidated sales of our organic businesses. Faster and CFP sales were also unfavorably impacted by the decline in the euro and Australian dollar, resulting in \$2.6 million of lower sales compared with their pre-acquisition exchange rates.

I will now touch on sales by region, which are designated here in the sales bar charts on the left. There is a table in the back of the press release, as well as the supplemental slides, summarizing this information.

As you can see, all geographic markets realized considerable year-over-year growth. With the addition of Faster and CFP, the EMEA and APAC regions are now larger contributors to our sales base. Sales to the Americas, EMEA and APAC regions were 49%, 27% and 24% of the consolidated total, respectively. Last year this was 56%, 22% and 22% to the Americas, EMEA and APAC, respectively.

Regarding profitability, our consolidated adjusted EBITDA of \$32.4 million was almost double last year's fourth quarter.

Turning to the bottom line, adjusted earnings per share were \$0.41, more than 50% higher than last year's fourth quarter. That comparison is impacted by a few factors I'd like to point out. First, the average number of shares outstanding in the 2018 fourth quarter was 4.9 million higher than last year, primarily due to our equity offering in the first quarter.

Second, we have more expense from amortization of intangibles, as well as interest on new debt resulting from our acquired businesses. This year's quarter includes \$0.14 and \$0.11 per share for amortization and interest expense, respectively, compared with \$0.05 and \$0.03 per share for amortization and interest expense, respectively, in last year's fourth quarter. Together, these 2 acquisition-related items had a \$0.17 impact on the fourth quarter comparison on both a GAAP and non-GAAP basis.

As Wolfgang mentioned, I want to reiterate that, beginning in 2019, we plan to report our non-GAAP EPS on a normalized cash basis, so we will be adding the amortization back for that purpose.

I'd now like to bring to your attention the items that impacted our consolidation results and that we added back for purposes of recording adjusted EBITDA and adjusted EPS shown here. Please refer to the tables in the back of the press release or slides for reconciliations of GAAP to non-GAAP numbers.

During the fourth quarter of 2018 we incurred the following:

- First, a \$776,000 reduction in amortization of inventory step-up costs resulting from a revision to the purchase accounting for Faster as we finalized the valuations of intangible assets. This was in cost of goods sold.
- Next, we incurred about \$90,000 of acquisition-related costs in selling, engineering and administrative, or SEA, expenses.
- Next, we recorded a charge of about \$554,000 for contingent consideration associated with the Enovation Controls acquisition, reported on its own line in the income statement.
- Finally, we had some favorable tax items, specifically, \$1.4 million related to the impact of tax reform, and \$1.9 million for other discrete items. For consistency, we added those back for purposes of calculating our adjusted net income and EPS.

Please turn to **Slide 7** for a review of our Hydraulics segment fourth quarter operating results. Consistent with prior periods, I want to point out that acquisition-related costs, including amortization, are not included in these segment numbers. They are accumulated in our Corporate and Other segment reported on the tables in the back of the earnings release and slides.

Sales for the Hydraulics segment grew 89%. We saw 73%, 113% and 89% year-over-year growth for the quarter in the Americas region, EMEA and APAC. Those growth numbers benefited from the addition of Faster and CFP. On an organic basis, we realized 8% growth, which was driven by increased market demand in most geographies and end markets, and was also positively impacted by global sales and marketing initiatives. Orders continued to outpace revenue and our growth could have been even higher except that it was dampened by disruption from our CVT manufacturing consolidation project.

While gross profit increased by 87% on the higher sales, including the addition of Faster and CFP, the quarter was unfavorably impacted by higher outbound freight to satisfy customer demands, Faster's shutdown over the December holidays and the impact of CFP's integrator business model. Performance by our legacy CVT business was strong.

Hydraulics segment operating income nearly doubled. Our selling, engineering and administrative expenses, or SEA, included \$7.1 million for the Faster and CFP businesses, and we effectively managed the SEA expenses for our Sun business.

Please turn to **Slide 8** for a review of our Electronics segment's fourth quarter operating results. Revenue was up 8% compared to fourth quarter of last year. This was impacted by the timing of project revenue, some of which shifted into the fourth quarter from the third. Gross profit for the segment increased significantly, to 45.7% of sales. Favorable productivity, project mix and operational efficiency drove the growth, as we recovered from cost pressures realized earlier in the year.

Operating income in the fourth quarter grew from a loss in last year's fourth quarter to 18.7% of sales this year. In addition to the gross margin improvement, SEA expenses decreased by about \$1 million. This was primarily due to the restructuring costs included in last year's quarter.

Please turn to **Slide 9** for a review of full year consolidated results. Sales of \$508 million were up 48% over 2017. Acquisitions contributed \$126.8 million and our organic businesses grew 11%.

Regarding profitability, our consolidated adjusted EBITDA grew 43%, while the margin declined slightly. The erosion resulted primarily from higher outbound freight costs to meet customer demand, inefficiencies during the CVT manufacturing consolidation project and the impact of the CFP integrator business model.

Turning to the bottom line, adjusted earnings per share were \$1.74 but, like the quarter, are impacted by a few factors when comparing to the prior year, given our acquisition strategy. First, the average number of shares outstanding in 2018 was 4.3 million higher than last year, primarily due to our equity offering in the first quarter of 2018.

Second, 2018 includes \$0.56 and \$0.33 per share for amortization and interest expense, respectively, compared with \$0.21 and \$0.09 per share for amortization and interest expense, respectively, in last year's period. Together these 2 acquisition-related items had a \$0.59 impact on the full year EPS comparison on both a GAAP and non-GAAP basis.

Please turn to **Slide 10** for a full year review of the Hydraulics segment. Sales of \$381.8 million were up 66% over last year. Gross profit increased by 55% and operating income increased 53%.

Now please turn to **Slide 11** for a full year review of the Electronics segment. Sales were up 13% over 2017. Gross profit increased by 19%, and operating income increased 40%.

Please turn to **Slide 12** for a review of our cash flow and capitalization. In 2018 we generated \$77.5 million of cash from operating activities, 57% more than 2017, with the increase driven by higher earnings. Our CapEx was \$28.4 million, including the cost to complete our new production facility in South Korea, the addition of the Faster business and costs associated with our CVT consolidation project, as well as other productivity investments. In 2018 we were pleased to meet our ongoing cash flow targets of 15% operating cash flow to sales and 10% free cash flow to sales.

Regarding capitalization, we finished the year with about \$23 million of cash, \$353 million of debt and \$531 million of equity. Strong cash flow in our fourth quarter allowed us to reduce our net debt by nearly \$20 million in the quarter. We finished the year with our net debt to pro forma adjusted EBITDA of 2.4x. With our strong cash flow profile, we are focused on getting that down to below 2x.

Wolfgang, I'd like to turn it back to you for your perspective on outlook and our 2019 guidance before we open the lines for Q&A.

Wolfgang Dangel: Thanks, Tricia.

Please turn to **Slide 14**. As we have been expecting, the leading U.S. indicators that are important to Helios signal slowing growth in 2019, with accelerating growth to resume in 2020. Around the world nearly all major global economies are already in the slowing-growth phase of the business cycle. Economic forecasts that we follow point to a mild recession in Western Europe in 2019, returning to growth in 2020.

Important to note, as we have said before, in accordance with our Vision 2025 plan, we expect to outpace macroeconomic growth. This is being driven by the investments we have been making to expand our coverage in the field, increasing and broadening relationships with OEMs, penetrating regions where we have white space and continuing to introduce new and innovative products and solutions. Further, we are much more diversified by end market than the legacy business was, and we expect these factors to help us successfully weather economic cycles.

Please turn to **Slide 15** for our thoughts regarding our outlook for Helios in 2019. Referring to our Hydraulics segment, keep in mind that the timing of our 2018 acquisitions will impact our expectations for 2019. Specifically, our first quarter will include acquisition growth for both Faster and CFP. Recall that Faster will anniversary on April 5. Then our second quarter and part of our third quarter will include acquisition growth for CFP, which will anniversary on August 1.

Most of the end markets for all of our businesses are continuing to grow, although at a slower pace. But we have started to see some softening in the agriculture market, as we indicated last quarter, and the oil and gas sector.

Regarding operating profitability, we are very encouraged about the results we have seen from actions taken to improve production flow at our facilities, as well as manage our fixed costs. As previously indicated, we expect to complete our Sarasota manufacturing consolidation project over the next month. We are already seeing better workflow in those operations and expect that we'll continue to improve as we progress through the year.

Turning to our Electronics segment, we are cautious about expected demand, given the timing of customers' new model launches affecting that sector. But we are focused on opportunities and synergies as well as continuously improving production flow.

On a consolidated basis regarding quarterly cadence, we are currently expecting performance to be evenly spread throughout the year. However, we expect the Hydraulics segment to have a stronger start to the year and the Electronics segment to be stronger in the second and third quarters based on timing of product launches.

I am pleased to report that we are accelerating our new China manufacturing facility project. This will provide us with needed capacity to service that region by all of our businesses. We expect to begin production later this year.

Lastly, I want to highlight that we are continuing to aggressively invest in innovative manufacturing technologies and market-leading new products. These projects are driving our growth that is outpacing the market, as well as ongoing productivity improvements that are allowing us to service our growing customer base around the globe.

Please proceed to **Slide 16**, where we've provided our guidance for 2019 compared with our actual results for 2018. You will notice that we have simplified the items that we are guiding on for 2019. We are focusing on absorbing the businesses that we acquired over the past couple of years that have transformed Helios, as we advance along the strategic journey.

We are expecting consolidated revenue of \$590 million to \$600 million, growth of 16% to 18%, driven by both of our segments. On a consolidated basis this includes organic growth of 2% to 4%. We are expecting 21% to 23% revenue growth in our Hydraulics segment and flat to 4% revenue growth in our Electronics segment. We are expecting GAAP EPS of between \$2.10 and \$2.20, reflecting about 41% to 48% growth over 2018.

And as Tricia and I mentioned earlier, we are introducing a new non-GAAP metric, cash EPS, for 2019. Without visibility of one-time items, the only predictable difference between GAAP and non-GAAP cash EPS will be amortization expense on a tax-effected basis. We are currently expecting between \$2.55 and \$2.65 of cash EPS in 2019, up about 11% to 15% over 2018. We've provided a calculation of 2018 cash EPS for your convenience in the supplemental sections of our release and slides.

We are currently expecting an adjusted EBITDA margin of 24.5% to 25.5%. At the midpoint that represents a 50 basis point expansion over 2018.

Now I'd like to open the lines for Q&A.

Operator: [Operator Instructions] The first question is from Nathan Jones, Stifel.

Nathan Jones: Just a housekeeping one on the GAAP and non-GAAP EPS. I think you said this, Wolfgang. Is the only difference in there currently your expectation of amortization of intangibles? Any restructuring expense that you're anticipating in 2019?

Tricia L. Fulton: No, it's just the amortization of the intangibles. At this point we aren't anticipating anything else in the numbers that were provided.

Nathan Jones: Okay, thanks. The first question is going to be on price/cost. I know you had a lot of inflation you had to deal with in 2018 and some places where you could pass it through, some places where you couldn't pass it through, particularly in Enovation Controls, I think. Maybe you could talk about where you stand at the moment, how you think you can improve that price/cost dynamic through 2019.

Wolfgang H. Dangel: Yes. Sure, Nathan. As you know from previous calls and conversation, we basically secured the majority of the purchases through long-term agreements on the Hydraulics side of the business after seeing significant cost increases there, particularly in the first half of last year. As you also know, we have had price increases in all of our businesses that were introduced at different points in time in 2018. I think it's fair to say on the legacy business, so on the Sun business, we have made very good progress with regard of getting the price increases through. With regard to the Enovation business, the majority of the business there is OEM-driven. And as we pointed out also on numerous occasions, it's very difficult to impose price increases if there is not basically a snapshot in time where we have new product launches. Overall, I think I have to say, everything we have seen in the fourth quarter is pretty much in line with what we projected mid-year when we had the LTAs in place and when we launched the price increases across the different businesses.

Nathan Jones: Maybe you could talk a little bit about on the Enovation side, how successful you've been on shifting customers to new products as you've gone through '18, maybe the anticipation of doing that in '19. Because I understand that's where you can get those pricing increases through on the OEM side.

Wolfgang Dangel: Absolutely. I mean, as you know, we have about, I would say, 10 major product launches every single year on the Enovation side. And that provides the opportunity also to re-discuss the pricing levels. The team has been, to your question, very successful in shifting customers over to new products and new solutions. With that very strong engineering approach they have pretty much been coming in and suggesting modifications and upgrades to the OEM customers on an ongoing basis. That is one of the true strengths, I think, of Enovation Controls. So we have been pretty successful there and I'm very hopeful that we'll continue as we move forward from here.

Nathan Jones: Is it possible to quantify that at all, like 25% of customers or 75% of customers or anything like that?

Wolfgang H. Dangel: It's relatively difficult to quantify because we have to distinguish between modifications you do on existing products and then you have new product launches. As you know, the product cycles are very short on the Electronics side. I would hesitate to put a percentage on that. That's an ongoing process

happening in the daily business. But new launches, as I say, there are about 10 that are of significant size during the course of the year. The rest I would classify more as modifications, upgrades and so forth.

Operator: The next question is from Brian Drab of William Blair & Company.

Brian Drab: I wanted to first ask on organic revenue growth expectations. I may have missed it if you gave that number. Tricia, you didn't provide organic forecasts for 2019 for the segments, did you?

Tricia L. Fulton: No, we did not provide organic guidance by segment there. We're focused on the consolidated business and looking at that in the 2% to 4% guidance that we've provided. We did give overall guidance for each segment as well, but we're not guiding to organic.

Brian Drab: What was the 2% to 4%, Tricia?

Tricia L. Fulton: 2% to 4% is consolidated sales growth in '19. The \$590 million to \$600 million represents 2% to 4%.

Brian Drab: Okay. And that's organic, you're saying. Is that right?

Tricia L. Fulton: Yes.

Wolfgang H. Dangel: That is organic growth, yes.

Brian Drab: Okay. I got it. I was just doing some math that I guess I don't need to do here. Does that assume about a 1 to 2 point headwind from FX?

Tricia L. Fulton: Yes, that's probably fair. And we're seeing most of that from the euro, for the Faster business.

Brian Drab: Okay, great. And then you mentioned, Wolfgang, a stronger start in the Hydraulics business in the first half of '19. Does that have something to do with some pent-up demand maybe, as these orders were stacking up during the facility move? Or can you talk a little more about why we get off to that stronger start?

Wolfgang H. Dangel: Yes. I wouldn't say just because of the facility move, but coming out of having a lot of good tailwind actually all through 2018. We are seeing of course higher backlog numbers that we can work off. And now, with the facility consolidation here progressing well and as expected, we are in a good position to increase output relatively quick in the first half of the year. The reason why I emphasize the first half of the year, Brian, is we have good visibility for the first half of the year I think across all businesses. It's fair to say that visibility for the second half of the year is not truly representative. I think we would give forecasts and projections that we cannot underline with very fundamental data. There are too many moving pieces, I think, in the macroeconomic environment right now.

Brian Drab: Okay. Thanks. Then maybe just one more for now. The Faster business, if you look at that on a standalone basis and just the health of that business given I know you have a challenging end market in Ag, would that business be in your forecast? So are you expecting it to be up in 2019 versus 2018?

Wolfgang H. Dangel: Oh, yes, absolutely. And don't forget, Brian, only 65% of that business is exposed to the Ag market. We are still seeing strong development in construction equipment and in all the other industrial sectors. As a matter of fact, we have tried to take advantage of the opportunity by relocating resources to look more at construction equipment and the industrial sectors. Last but not least, we are also generating synergies here in collaboration with Sun and Enovation.

Operator: Now I have a question from Mr. Jeff Hammond, KeyBanc.

Jeff Hammond: This is Brad on for Jeff. Just on the CVT project, could you give us some color to the extent to which that was a drag on the fourth quarter? It sounds like that continued to progress from levels in 3Q, but how much of a drag was that in the fourth quarter? Then how much of that lingering kind of headwind stays with us until 1Q and then once the project completes in the back half of the year?

Wolfgang H. Dangel: Sure, Brad. First of all, things have progressed exactly as we told you in the Q2 and Q3 earnings release last year. If I had to quantify the drag to come to your specific question in Q4, I would probably say it's between 5% and 10% of output that was impacted in Q4. Now, as we are progressing and pretty much the move is complete at the end of this week, as far as the maneuvering of machinery and equipment is

concerned, we then have to do streamlining during the month of March and then basically can finalize that project at the end of March. So as we move through the first quarter, we are reducing that 5% to 10% deficit that I referred to for Q4, gradually. So I am hopeful then, that by Q2, we are still on a level playing field where we can reap the benefit of more streamlined manufacturing and the increase of capacity.

Jeff Hammond: Okay, that's helpful. And then along those same lines, if I look at the margin guide, it seems like there were quite a few headwinds in 2018, primarily on the Hydraulics side and a majority of those lessen or go away altogether in 2019. Then if you layer on some productivity upside once the project completes, can you talk about the upside, some margin that might exist in Hydraulics and maybe some of the negating factors that are out there as well?

Wolfgang H. Dangel: Yes. I would caution you a little bit on the upside potential because I want to make sure that the expectations are not too high. As I pointed out earlier, we had three price increases last year. We are monitoring the situation right now, but we are not planning an imminent price increase at this point in time. So from a pricing level we'll probably not do anything for the next few months or so. As far as productivity and efficiency is concerned, as I said, the site consolidation project is just about completed. We'll ramp up the capacity, we'll streamline everything and we should see a positive impact there. We're doing pretty much the same on the Faster side as well, so I want to make sure that we are not talking only about Sun Hydraulics here and the streamlining of manufacturing here in Sarasota. We have a number of ongoing projects in place on the Faster side of the business to further streamline manufacturing and become more efficient there.

Operator: The next question is from Mig Dobre, Robert W. Baird

Mircea Dobre: I want to clarify something. Perhaps I missed it, but in terms of D&A should we expect any changes in '19 versus '18? Where I'm going with this, I'm looking to confirm that the margin expansion here on EBITDA is a core operating guide.

Tricia L. Fulton: Yes. On the amortization side, amortization for '19 will be lower than it was in '18. Some of the items that come through on the intangibles for amortization are short-lived, like backlog. We ended the year at \$23.3 million. We're looking at amortization of probably \$17 million to \$19 million for 2019. And on the depreciation side with the addition of Faster and CFP for more of the year, as well as the new assets that are put in place, we do expect an increase in depreciation over '18. We ended the year at \$16.5 million and we're looking somewhere between \$22 million to \$24 million.

Mircea Dobre: Okay, that's helpful. And then, also sticking with minutiae here, do you have a view on the tax rate for 2019? And also looking to confirm how you're thinking about free cash flow.

Tricia L. Fulton: Yes. We ended the 2018 year with an effective tax rate of 17%. As we noted in our prepared remarks there were some one-time impacts in there. But we also do get the benefit of the new U.S. tax laws. Our rate going forward we expect to be somewhere between 20% and 22% for '19 and beyond. And you had a question on how we view free cash flow. We still are looking at our target of free cash flow of 10% of sales. And that's even given the significant CapEx that we're expecting in '19.

Mircea Dobre: Okay. That's helpful. Then maybe going back to margin, and I think the previous person tried to get at this. When you're looking at your 50 basis point midpoint guidance, for expansion, that is, how do you think this flows at segment levels? Do you essentially bake in similar expansion for both Electronics and Hydraulics? Or is one potentially benefiting more than the other?

Wolfgang H. Dangel: No. I mean, we don't necessarily look at it like that, Mig. First of all, the margin levels, as you know, from a gross margin perspective are higher on the Electronics side to begin with.

Mircea Dobre: Well, yes, but I'm talking about the year-over-year change here. Right? You're talking about margin improvement and I'm trying to figure out where you see more of an impact, if it will all be at one segment or both.

Wolfgang H. Dangel: It will be in both segments. It will be a positive contribution from both segments.

Mircea Dobre: But you cannot call out one versus the other based on either pricing dynamics or what you know you have in terms of efficiencies, so on and so forth? I mean, it strikes me, for instance, that you've had

a lot of headwinds in Hydraulics, some of which are getting resolved in 2019. I would imagine, for instance, that you'd have relatively good margin traction.

Wolfgang H. Dangel: That's a fair assessment, Mig. I think it's probably a little bit more contributed by the Hydraulics segment. My opening statement was referring to Electronics, where we have already absolutely superior gross margin. There is not a lot of room to improve there. The benefit on the Hydraulics side goes back to the site consolidation project in Sarasota. As you know, our business model is still fixed-cost driven, therefore the higher the utilization is the better the margin is. We're creating more capacity through the LEAN manufacturing principles that we are applying, that helps us actually to invest less in machinery and equipment. We are just squeezing more out of the existing installed machine base. And that, coming back to your question, will definitely contribute then to margin improvement.

Tricia L. Fulton: But with the significant fixed costs in the Hydraulics segment, primarily related to capital, I think we can leverage those costs a little bit more quickly than we can on the Electronics side. As we start to see revenue increases I think the Hydraulics segment does generate more margin more quickly.

Mircea Dobre: All right. Then, going back to growth in Hydraulics, so if I heard you correctly you said that your book-to-bill has remained above one. That essentially implies that you've built some backlog of orders. I know that you built a backlog of orders throughout 2018. I guess I'm trying to get a sense from you as to how the dynamic is playing out in terms of supporting growth into 2019. Can you size the backlog or give us a sense for how it is now versus prior years? I'm also looking to understand what role your disruption played in building this backlog and whether or not eventually this backlog conversion, now that your facility consolidations have been essentially complete, whether that drives this outgrowth in the front half that you mentioned earlier.

Wolfgang H. Dangel: The backlog is elevated but it is not exceptionally high, if I look at the actual numbers and such. The backlog is definitely elevated also to a certain degree because of the site consolidation project. It started in April last year. As you know, we had very strong order intake in Q2, Q3 and Q4. And I quantified the facility consolidation project impact in Q4 at between 5% and 10%. So that had an impact on backlog. The reason why we say we feel pretty comfortable for the first 2 quarters in 2019, is we are eating into that backlog and continuing to see solid orders and order intake at the same time. That's why we are more comfortable about the first half of the year on the Hydraulics side compared to the second half of the year.

Mircea Dobre: Okay. I only have two questions left, one on Hydraulics again. You quantified the FX earlier. We know what the acquisitions are contributing in terms of Faster and CFP. Running the math here, it seems to me like you're implying organic growth in Hydraulics of roughly, call it, 4%. Correct me if I'm wrong. But as I'm looking at this 4% figure I'm trying to understand how much of that is essentially volume-driven versus left over from price increases. It seems like about 1/2 of that would be related to price increases on a year-over-year basis. Do I have that correct or what am I missing?

Wolfgang H. Dangel: I think you're probably in the ballpark with the numbers that you've stated. The only thing with regard to the price impact there, it's higher on the legacy business, as you know, and that is simply because we work more through the channel compared to Faster where we fill more through OEMs and price increases are more difficult to impose on customers. But in general, yes, I think -- yes, your numbers are in the ballpark.

Mircea Dobre: Okay. Lastly, your comment on orderly cadence, I'm looking to make sure that I understand that, part of your Slide 15. That quarterly cadence is essentially an EPS comment. Right? I mean, that's how I took it, rather than a revenue term.

Tricia L. Fulton: It's both. I don't know that you can have one without the other, necessarily. It was intended to cover revenue as well.

Operator: The next question is from Charley Brady, SunTrust.

Patrick Wu: This is actually Patrick Wu standing in for Charley. Can you provide a little bit more detail on the establishment of the China facility for the Electronics segment? It sounds like you guys are expecting production to begin later this year. When do you expect more full-ramped production capabilities at that facility? That's one. Second, what are the associated costs, or the incremental costs, related to the project in 2019, and generally what is your overall outlook and view of China at the moment?

Wolfgang H. Dangel: Sure, Patrick. Let me start with the last question first. The overall outlook on China remains positive for us. We have built a very strong team, particularly on the legacy business, over the last five to eight years. We are seeing the benefit of that in the marketplace. We have excellent channel partners in China. They have tremendously helped us to grow the business. Despite all the geopolitical turmoil, I feel very optimistic on China because we deal with lots of Chinese companies that export their machinery and equipment and they will continue to do so. In order to be competitive on the global scale they need sophisticated best-in-class components and solutions and that's why I'm very positive about that.

Now, let me come to your question with regard to the facilities. We had plans to put this facility in place about 2 years ago. At that point in time we were looking at 2021, probably 2022. I pointed out earlier on that we are accelerating the plan, that we pretty much want to see products coming out of the facility already in Q4 of 2019, this current year, the reason being that we want to move on some of the exposure that we have right now from just importing into China. We don't want to get exposed by the outcome of the tariff discussions at the end of the day. In the context of our philosophy of building products and building up engineering competence 'in the region, for the region' we have decided to accelerate the project.

In Stage 1, we will do assembly and test. So there will still be a lot of parts coming from outside of greater China. Then in Phase 2, we localize those parts. Then in Phase 3, we want to go into full-scale manufacturing. The first point I wanted to make, Patrick, so you were referring to this being an Electronics manufacturing facility. That's not the case. This is, first and foremost, manufacturing for the Hydraulics business and, here in particular, for the legacy business. Nevertheless, this is, at the end of the day, a Helios compound and we might pull in other businesses as well and embark on value-add activities in China. Does that answer all your questions?

Patrick Wu: Yes. Actually, thanks for clearing that up. It sounds like Phase 2 and 3, those are going to be post-2019 events. Is that accurate to assume?

Wolfgang H. Dangel: Yes, that's correct. And you still had a question, I think, on CapEx for this year. The CapEx exposure this year will be minimal, because we are leasing that facility so we are not building the facility on our own as we did in Korea. It's a leased facility, and for the assembly and test the CapEx exposure is relatively minimal this year. There will be a higher CapEx being applied then in 2020. But this year it's immaterial looking at the overall CapEx number that we have for the Helios group.

Patrick Wu: Got it. And then can you provide a little bit more color on the oil and gas and the Ag softness that you're beginning to see? And in particular in Ag, just wanted to see what that implies for the Faster margins, which I think carry higher margins to begin with, fully appreciating your earlier comment that you guys are diversifying more into the construction end market. But it sounds like because of the OEM relationship with that business, pricing is a little bit harder to get through than for legacy Sun business. So I just wanted to get more color on oil and gas and Ag softness and what that might imply for the Faster margins.

Wolfgang H. Dangel: Yes. Let me start with oil and gas first. Oil and gas exposure we have only in two of the businesses, which are Sun and Enovation, that's a legacy business that came through the Murphy brand, actually. Then on the Sun business we have already reduced over the last three or four years our exposure to oil and gas and mining, by diversifying into these other segments. But just on the outset I want to clarify that our exposure to oil and gas is significantly less than it was about three or four years ago to begin with.

We are seeing softening in oil and gas, both for Sun and Enovation, probably since the middle of last year. In the forecast and the assumptions we are making for the balance of this year we are not expecting a significant change there. We see a moderate business level and that's what we expect to see for the balance of the year. Ag has been softening probably since the beginning of the fourth quarter. And that started to soften in Europe at that point in time. In the meantime I think the softening has expanded also, a little bit, to some of the other regions as well. At Faster, if you were referring to the margin levels, I also pointed out earlier on we have a lot of initiatives in place on the products from a manufacturing perspective to streamline things that drive more costs out of the system. I am pretty confident that we have enough room there to protect the high margin levels that we have seen historically, also during the fourth quarter of this year.

Operator: We have a question from Mr. Josh Pokrzywinski, Morgan Stanley.

Josh Pokrzywinski: This is Breindy Goldring on for Josh. I wanted to ask you about cash EPS. The move is understandable given the deal amortization. But if I'm looking back the past few years the cash conversion has been relatively low. How should we think about that cash conversion going forward, changing from here?

Tricia L. Fulton: Yes. We've had pretty significant CapEx investments '17, '18 and expected in '19. We historically have said that we think CapEx would be 4% to 5% of sales. And we're above that for the last two years and we're projecting to be above that for '19. Obviously those are investments that we need to make before we get back to the lower historical and expected levels. I think that we are, right now, happy with the cash EPS that we're able to generate and the free cash flow that we're able to generate at 10% of sales, we think that is a good target for us to be able to pay down the debt as quickly as possible to get below 2x net debt to EBITDA.

Josh Pokrzywinski: Okay, thank you. Then just looking at Electronics, you mentioned that project timing was a big driver there. Can you provide any more color on that? Was any of that pull-forward, and then just more broadly if you saw any inventory movement from customers ahead of tariffs?

Wolfgang H. Dangel: Let's start with the second question first. We saw a little bit of inventory movement, but I think it was, at the end of the day, pretty insignificant. We actually see more inventory movement on the channel partners' side because of expanded lead times, that's probably more influential than the tariffs side as such.

With regard to your first question on the product launches, I mean, this is just a pure timing situation. As I pointed out, we have the same amount of major launches pretty much every single year, but this year these launches are pushed back a little bit. That's the only difference compared to last year. I think the second factor that is coming into play here is, Enovation has been highly successful. As you know, this business grew organically 50% in the two years since we acquired it. I think they were also highly successful because in the last two years they really generated a lot of additional pull-through on equipment with their electronics solutions that were, in the beginning, not even requested by customers. Now we are continuing doing that, but we cannot see the same growth rate every single year that we saw in 2017 and 2018.

Josh Pokrzywinski: Okay, got it. Then just looking at your 2025 Vision, you have pretty healthy growth rates through 2025, and we're starting off this year at 2% to 4% growth, which would require a lot of catch-up afterwards. Are the Ag and oil and gas markets slower than you expected where you would require more catch-up after that? Or was this already baked into this 2025 Vision, that you would see this low growth rate the first year?

Wolfgang H. Dangel: This is an integral part of the 2025 Vision. If you look at the diversification of the end market, as I pointed out earlier, our dependency on oil and gas a couple of years ago was significant. Today this is kind of immaterial. It's still having an impact but it is immaterial because, at the end of the day, we have spread our four major clusters here: industrial, mobile, agriculture and recreational markets. We think those clusters we have diversified a lot into individual sectors. I mean the business at the end of the day is cyclical, but the diversification is the best way of dampening the impact if one of those sectors or end markets is sluggish, or even declining over a longer period of time.

Operator: We have a final question from Joe Mondillo, Sidoti & Company.

Joseph Mondillo: I'm a little unclear, on the gross margins, especially at the Hydraulics segment just because there's been so many moving pieces. Price/cost and productivity was a big issue earlier in the year, and I think that's improved throughout 2018. But then you acquired CFP and you've still got what you're doing in Sarasota. Looking at the fourth quarter gross margins at Hydraulics, how can we think about things going forward? I'm assuming that you're expecting some productivity improvements once you complete the Sarasota consolidations. Then remind us how the seasonality plays a role into things amongst the quarters.

Tricia L. Fulton: Yes. Looking at the fourth quarter Hydraulics gross margins, there's a little bit of step-up reduction included in that that's bringing it up a little bit. We should see higher gross margins for the Hydraulics segment in '19 than what we saw in '18. You're right that there were some challenges to the gross margins, some of which the CVT price increase helped in the back half of the year. And we will actualize that throughout 2019. The addition of CFP with their different business model is playing in a little bit to the margin changes in

that segment. Completion of the Sarasota consolidation project will help to improve the overall Hydraulics margins also. We do expect to have modest improvement in 2019 actually in both segments at the gross profit level.

Joseph Mondillo: And in terms of seasonality, could you remind us if there's any? I think at Hydraulics the fourth quarter tends to fall off. Correct me if I'm wrong about the seasonality there. And just in terms of seasonality to Electronics, just wondering how to look at that fourth quarter gross margin that you posted at Electronics, taking into account seasonality.

Tricia L. Fulton: Yes. We're trying to take out the segment seasonality discussion by guiding to even consolidated quarters throughout the year. There are some different things at play here. We talked in our prepared remarks specifically about Electronics having to ramp up a model-year rollout in Q2 and Q3 this year that sort of changes the dynamic a little from last year. I think we'd like to stay with the way we've talked about it from a quarterly perspective of expecting consolidated results that are pretty evenly spread across the 4 quarters of '19.

Joseph Mondillo: Okay. In terms of the geographical regions, looking at the construction market, particularly if you look at Caterpillar's most recent January retail sales, they're continuing to see pressure. I think declines are accelerating in the Asia markets, Europe sort of following. North America seems to be holding up. Could you just give us your take on your geographic markets and how they're trending through February or up until whatever date that you have?

Wolfgang H. Dangel: Yes, sure. I think in general we can say that moderate growth is expected here to continue on a global basis. If you break it down into the triad I would say probably the most concerning piece is Europe right now. And as you quite correctly said, Joe, it's probably the strongest situation we are seeing here still in North America. I think Asia, and here in particular East Asia, we have to see how this will shake out. We are still seeing quite solid tailwind at this stage, particularly in recent weeks and months. So no reason for a concern at this stage in Asia.

Joseph Mondillo: Okay. And, sorry, just to follow up, how is Europe?

Wolfgang H. Dangel: Europe is the weakest piece, and I think that is applicable not just for construction machinery. I think that's for industrial production. I was just looking in preparation for today's call, looking at some of the numbers again. If you look at total machinery production in Europe, it's pretty much expected to be flat and it could even move into negative territory towards the second half of the year.

Operator: There are no further questions at this time. I would like to turn the conference back over to management for closing remarks.

Wolfgang H. Dangel: Thanks for your interest in Helios and for your participation this morning. Also I want to thank, too, all of the hardworking Helios employees who are driving these results. We look forward to updating all of you on the first quarter 2019 results in May. Thank you very much and have a great day.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.