Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies Second Quarter 2025 Financial Results Conference Call. We issued a press release announcing our results yesterday afternoon. If you do not have that release, it is available on our website at hlio.com. You will also find the slides that will accompany our conversation today as well as our prepared remarks.

Here with me is Sean Bagan, President, Chief Executive Officer and Chief Financial Officer. While the search process for a new CFO is ongoing, please welcome back our Vice President, Corporate Controller, Jeremy Evans as well. Sean will start the call with highlights from the second quarter as well as comments on our CFP divestiture announcement then hand it over to Jeremy to review our second quarter financial results in detail and our current thinking on the latest tariff impacts on our business. Sean will then conclude our prepared remarks with our latest thoughts on our 2025 outlook, financial and operational priorities, and key focus areas. We will then open the call to your questions.

If you turn to **Slide 2**, you will find our Safe Harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and the Q&A session. 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 those presented today.

These risks and uncertainties and other factors can be found in our Annual Report on Form 10-K for 2024 along with our upcoming 10-Q to be filed with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I'll also 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 with Non-GAAP measures in the tables that accompany today's slides. Please reference **Slides 3 and 4** now.

With that, it's my pleasure to turn the call over to Sean.

Sean Bagan, Interim President, Chief Executive Officer, and Chief Financial Officer

Thanks, Tania and welcome everyone. We appreciate you joining us today.

Before we walk through our second quarter results, I'd like to take a moment to recognize a special milestone in our Company's journey. This year marks the 55th anniversary of Helios Technologies – a moment of gratitude and celebration.

I had the privilege of celebrating a meaningful milestone with the Sun Hydraulics team on Saturday evening—a perfect midsummer outing in the local community at the Bradenton Marauders game, the minor-league affiliate of the Pittsburgh Pirates. With two outs and two runners on base in the bottom of the 9th, the Marauders were down by two runs. Then, in a thrilling finish, Tony Blanco Jr. launched a walk-off home run to seal a dramatic 6–5 comeback win. The symbolism couldn't be more fitting for the Sun Hydraulics and Helios teams as we look ahead with renewed energy and determination to make a strong comeback in the second half of the year.

We would not be here today without the vision, determination, and relentless spirit of those who came before us, specifically from our largest operating company, Sun Hydraulics. From our founders Bob Koski and John Allen, who laid the groundwork with bold ideas and a pioneering mindset, to the generations of employees and partners who helped build and sustain this Company through decades of change and growth—this milestone belongs to all of them.

To every individual who has contributed to our story over the past 55 years: thank you. Your commitment, your belief in our purpose, and your dedication to excellence have shaped who we are today. As we honor that legacy, we remain firmly focused on the future—committed to innovation, to our customers, and to creating long-term value for our shareholders.

Now, let's turn to the highlights of our second quarter performance.

We are pleased to have delivered second quarter results that surpassed our internal expectations, demonstrating resilience and disciplined execution in a continued dynamic environment with challenged end markets. While sales and earnings declined in the quarter compared to the prior year, the performance reflects solid progress against our 2025 key focus areas and financial priorities, which positions us extremely well for the second half of the year.

Sales in the quarter were $212 million exceeding our outlook on stronger than expected Hydraulics segment sales, also aided by foreign exchange. Adjusted EBITDA margin of 18.6% was also above our outlook even while somewhat dampened by unfavorable product mix and tariff impacts. In addition to stronger-than-expected second quarter sales, margins and earnings, we also generated near-record cash from operations of $37 million and used that to further strengthen our balance sheet. We continued to reduce debt which is lower by $67 million from the year ago period, improving our net debt to adjusted EBITDA leverage ratio to 2.6 times. We are targeting a sub two-times leverage ratio, that will give us flexibility from a capital allocation perspective.

We initiated our previously announced share repurchase authorization by repurchasing 200,000 shares of common stock at an average price of $32 per share in the quarter. We believe that to be an excellent use of our capital especially as we consider the opportunities before us to deliver organic growth and return adjusted EBITDA margins to the 20% plus range.

Also recently announced, we have signed a definitive agreement to sell Custom Fluidpower, our Australian-based hydraulic fluid power and service provider business to Questas Group for $83 million Australian dollars or approximately $54 million USD equivalent at current foreign exchange rates. On a standalone basis, the Custom Fluidpower business, also referred to as CFP, has been a remarkable growth company under the Helios umbrella. Since purchasing the business in 2018, CFP's sales have expanded every year, growing to $92 million Australian dollars or $61 million USD equivalent for fiscal year 2024. More impressive, earnings have more than doubled over that same comparable period, including adjusted EBITDA USD equivalent growing from approximately $4 million to $8 million. As we are refocusing our go-to-market strategy and prioritizing our capital allocation to improve our ROIC, it became clear Helios and

CFP would be better served as strategic partners versus related parties. Headquartered in Sydney, Questas is one of Australia's leading providers of hydraulic solutions and currently has approximately 850 employees across 37 locations. We believe Questas is the ideal owner for CFP. Importantly, we have solidified our long-term relationship with Questas through an exclusive distribution agreement between them and Sun Hydraulics for that region. This fosters a partnership where each party's success contributes to the other's advancement.

Our plan is to use the cash proceeds from the transaction primarily for further debt reduction as well as investment into our core manufacturing and innovation. While the divestiture will reduce our sales and earnings run rates, it will improve margin rates within our Hydraulics segment and at a consolidated Helios level.

In the quarter, we also made progress aligning our business to better serve our customers by structuring our people and processes around our products and brands within our hydraulics and electronics segments. This structure enables our go-to-market strategy and improves accountability for performance. This approach keeps the operating teams closer to our customers to better understand their needs. In addition, we have simplified the business. As mentioned last quarter, we have eliminated fixed cost and reallocated personnel resources from the Helios Center of Engineering Excellence in San Antonio, Texas. This has enabled us to concentrate our talent within our brands and drive accountability with the engineering teams for the products we bring to market.

We're taking decisive steps to refocus the organization in order to drive better outcomes. We are working hard to make Helios a better business through relentless commitment to customer needs, cost discipline, refined capital allocation and operational efficiency.

From a governance perspective, this quarter we also fortified our Board of Directors through the appointment of Ian Walsh. Ian is currently the CEO of FDH Aero. His strong leadership experience in the manufacturing, commercial aerospace and defense industries illustrates the very relevant operational and strategic expertise he brings. This returns the board to seven total members.

I will now turn the call over to Jeremy now to cover the details of our second quarter financial results and then I will come back to discuss our outlook and highlight the innovations we are advancing in our markets.

Jeremy Evans, Vice President, Corporate Controller

Thanks, Sean. And good morning, everyone. As I review our second quarter results, please reference **Slides 5 through 9**.

As Sean mentioned, sales in the quarter were $212 million exceeding the top end of our outlook range which was $206 million. Note, foreign exchange contributed to the over achievement, favorably impacting sales by about $3 million dollars compared with our outlook assumptions. We estimate the impact of customers pulling orders ahead because of the announced tariffs was minimal in the quarter.

Regionally, EMEA grew 5% this quarter over last year while sales declined in the Americas and APAC. Though, APAC sales in our Electronics segment were up 27% year-over-year driven by the health and wellness end market. The EMEA growth was driven by returning demand for Faster products within our Hydraulics segment. While consolidated year-over-year sales comparables are still negative, the profitability flow through on our sequential sales step-up validates the leverage we can quickly see in our model with volume growth.

For the quarter, gross margin contracted 30 basis points over last year. The decline in labor and overhead costs partially offset lower volume, higher material costs, and net tariff impacts. Sequentially, gross margin expanded 120 basis points on higher volume primarily in the hydraulics segment. We continue to prioritize operational efficiency. We believe our focus on safety, quality, delivery, and cost fosters creating a culture of accountability and customer-centricity that aligns with our shared values.

Operating income in the second quarter was down $4.1 million, reflecting the $3.1 million decrease of gross profit on lower volume, $0.6 million increase in SEA expenses primarily due to the leadership change in the Electronics segment and an additional $0.4 million increase in amortization as a result of our HCEE restructuring previously mentioned. Operating margin declined 150 basis points to 10.3% and Adjusted EBITDA margin declined 150 basis points, compared to the prior year period.

Our effective tax rate in the second quarter was 23.8% reflecting the income mix in the various tax jurisdictions.

Diluted EPS was $0.34 in the quarter, down 17% over last year. Diluted Non-GAAP EPS was $0.59 in the quarter, down 8% over last year primarily as a result of the lost leverage from the 3% decline in sales but importantly up 34% over the first quarter.

Looking to **Slide 10**, I'll give more color by segment. Hydraulics sales declined 3% over the prior year period. This decline reflected weakness in industrial and mobile end markets while agriculture started to show signs of stabilizing for the first time in 8 quarters.

Foreign exchange had a favorable $1.5 million impact on the segment compared with the prior year period.

Hydraulics' gross profit and gross margin grew year over year, 4% and 220 basis points respectively, primarily due to lower material and direct labor costs partially offset by lost leverage on lower volume and net tariff impacts. Operating income was up $1.1 million, or 5%, compared with the prior year period reflecting the growth in gross profit, partially offset by a modest operating expense increase. SEA expenses were up 2% mainly due to higher labor and benefit costs and increased R&D investment.

Please turn to **Slide 11** and we'll discuss the Electronics segment.

Year over year, Electronics sales were down 4%. Sales across most end markets declined, most significantly from the recreational market this quarter. We see end markets with shorter lead times still under pressure, such as the more consumer-facing markets. Though, OEMs are focusing on platform development which could lead to potential growth going into next year.

The 18% decline in Electronics' gross profit and 530 basis point decline in gross margin was primarily the result of higher freight and duties costs, including a $2.4 million expense related to a product import classification change, higher material costs and a heaver mix of Balboa sales which has lower average margins. SEA expenses were down 2% year over year primarily due to realized cost savings from the HCEE restructuring previously mentioned. Operating income declined by $4.4 million despite the cost savings reflecting the decline in gross profit. Operating margin for the segment was 8.2%, or 11.6% less the classification true up.

Slide 12 shows our focus on cash management continues to pay off with a trailing twelve month free cash flow conversion rate of 291%. As Sean mentioned, we generated cash from operations of $37.0 million in the quarter, a 10% improvement over the second quarter last year even on lower sales, as a result of good management of working capital with our cash conversion cycle the lowest it has been since the first half of 2022. Inventory increased 4% from the prior year period reflecting preparation for sequential sales growth. Capital expenditures in the quarter were $5.4 million, or 2.5% of sales. As we have noted previously, our capital expenditure plans for 2025 will be prioritized with a focus on maintenance and productivity enhancements that demonstrate evident returns on investment.

Turning to **Slide 13**, at the end of the second quarter, cash and cash equivalents were $53 million, and we had $359 million available on our revolving lines of credit. We paid down debt for the eighth consecutive quarter. We have reduced debt by 13%, or $66.5 million over the last 12 months. Our net debt to adjusted EBITDA leverage ratio is down to 2.6 times, from 3 times a year ago.

Our capital priorities remain focused on further reducing debt, generating organic growth, opportunistically repurchasing shares and paying our long-standing dividend - as we have consistently done for over 28 years.

Turning to **Slide 14**, let me provide an update on the tariff situation and the current expected impact to Helios. As a result of changes in the tariff levels since our last earnings call, the total estimated impact of direct tariff cost to the second half of 2025 has been reduced to about $8 million. We continue to expect that we can ultimately offset a large portion of these impacts through our mitigation efforts and use the competitive positioning here in the U.S. to our advantage. As we have discussed before, we believe our "in the region, for the region" strategy continues to work in our favor.

Slide 15 provides the mitigation efforts we have been working on. Some updates on our progress from the last quarter include:

Finding alternative non-China based suppliers for LCDs and certain metals used in our Electronics products

Reducing the number of our products manufactured in our Tijuana, Mexico facility that are not USMCA compliant

Transferring a significant portion of our previously exported sales to China from the U.S. to be fulfilled through our APAC facilities; and

Implementing very targeted surcharges on the products most impacted by tariffs.

With that, I will now turn the call back over to Sean…

Sean Bagan, Interim President, Chief Executive Officer, and Chief Financial Officer

Thanks, Jeremy. Turning to **Slides 16 and 17**, we have delivered a better than expected first half of 2025. This was capped off with the month of June delivering positive sales growth over the prior year period for the first time in 2025. We expect year-over-year growth every month for the balance of the year and are off to a good start in July. This is encouraging after 12 consecutive quarters of sales declines. Our consolidated Helios order backlog has grown every month so far this year. We have not seen that trend since the beginning of 2021.

We originally established a full year 2025 outlook when we reported year end results for 2024 on February 24th. Last quarter, with all of the tariff uncertainty we said we were not withdrawing our full year outlook, but we were shifting our guidance to focus on just the next forward quarter. This is where we have the highest visibility and have established a track record with meeting our commitments over the last seven quarters. We have more confidence now based on our first half performance that we will grow 2025 annual sales above 2024 levels. Depending on the exact timing of closing the CFP transaction, we see a possible outcome of delivering full year sales above the high-end of our initial estimate of $825 million. We will further refine this on our third quarter earnings call.

Looking forward, we are encouraged by the relative stabilization we have seen occurring over the past few months in our agriculture, mobile, European construction, and health & wellness markets. Our EMEA regional sales are strengthening for the first time in approximately two years. We also have the advantage of softer comparables as we enter the second half of the year. Although we have experienced continued persistent weakness in the broader industrial and recreational markets, we are calling for a stabilization of industrial and an acceleration of recreational markets based on our orders from our customers in those markets.

PMI readings have been choppy but have shown some pockets of strength relevant to the regions we serve. Last week's better-than-expected U.S. GDP reading has economists reducing their expectations regarding a potential recession in the near term. Overall, our distributor inventories have declined to a level that would suggest we could be near a restocking threshold. We are cautiously optimistic but acknowledge there is still a good deal of external noise including changing tariff headlines and stagnant interest rates - equating to a dynamic and often unpredictable macro environment. We are excited about the longer-term growth prospects with the strength of our team and changes recently made intended to spark our momentum.

We anticipate third quarter sales to be in the range of $208 to $215 million, up about 9% over the prior year period at the mid-point of the range. This includes contribution from CFP as we expect to close that transaction in about 60 to 90 days. We anticipate fourth quarter sales growth rate to accelerate further beyond third quarter growth rates, again anchored back to our strengthening order book, anticipated end market performance and year ago comparables.

We are projecting adjusted EBITDA margin to be in the range of 19.5% to 20.5% in the third quarter, remaining a bit depressed compared with last year due to segment mix and tariffs, but likely continuing to show sequential improvement. As a reminder, in the third quarter last year there was a favorable stock-based compensation adjustment of $5.5 million as a result of the prior CEO's termination. Diluted Non-GAAP Earnings Per Share are expected to be in the range of $0.60 to $0.68 cents, reflecting continued advancement of the bottom line.

Turning to **Slides 18 to 21**, the key to our success will be grounded in organic growth driven by innovation across the organization. New products are being launched at a faster pace as seen here by the numerous value-add solutions that we have brought to market in 2025. I am very proud of how the team has kept their foot on the gas and accelerated our cycle times to market for new products, many in white spaces providing incremental sales opportunities while not cannibalizing existing sales. This is a great example of how we are controlling what we can control in this dynamic operating environment. A central pillar of our go-to-market strategy is to drive growth by deepening relationships with existing customers and expanding into new markets where we have a strong right to win.

Let me conclude by saying how encouraged I am about the progress we have made as an organization in a relatively short time. Customer engagement has improved, the team's excitement about our future is elevated, and the change in our operating structure has allowed for greater innovation and accountability. We continue to build the business and are creating a platform that can leverage our strengths and return the Company to a premium margin profile. The sale of CFP is a demonstration of our willingness to improve our margin profile, even if it means temporarily shrinking our sales. This move will afford us greater flexibility to make more aggressive capital deployment decisions to fuel our future growth. We remain focused on improving our margins across the board and will continue to evaluate all opportunities within our product portfolio to drive efficiency and generate higher profits.

I remain confident in our ability to continue executing on our commitments. I would like to thank each one of the Helios employees across the globe for all their daily efforts as they are building the pathway to a very bright future for our collective Company. As we celebrate our 55th anniversary, we stand on the shoulders of the remarkable CEOs who paved the way for Sun Hydraulics in its earlier days, including Bob Koski, Al Carlson, and Clyde Nixon—we honor their vision, leadership, and dedication. We also recognize the legacy of the companies that have become part of the Helios family. Their decades of innovation and expertise now enrich the vibrant, unified organization we are building together.

Thank you for being part of today's call and for your ongoing engagement with and support of Helios Technologies.

With that, let's open the lines for Q&A, please.

Note: Please refer to the webcast version of the call, which is available on the Company's website (heliostechnologies.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision.