

Operator: Greetings, and welcome to the Helios Technologies First Quarter 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Tania Almond, Investor Relations and Corporate Communications for Helios Technologies. Please go ahead.

Tania Almond: Thank you, operator, and good morning, everyone. Welcome to the Helios Technologies First Quarter 2021 Financial Results Conference Call. We issued a press release yesterday afternoon. If you do not have that release, it is available on our website at hlio.com. You will also find slides there that will accompany our conversation today. On the line with me are Josef Matosevic, our President and Chief Executive Officer; and Tricia Fulton, our Chief Financial Officer. They will spend the next several minutes reviewing our first quarter results, updating you on the execution of our augmented strategies, discussing our recently announced acquisition, updating our outlook for the rest of 2021, and then we will 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 also during 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 where we are today. These risks and uncertainties and other factors will be provided in our 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.

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

Josef Matosevic: Tania, thank you, and good morning, everyone. Please turn to **Slide 3**, and I will summarize our highlights for Q1. We have started 2021 on a very strong note, with our first quarter exceeding our internal expectations. In fact, we had several records in the quarter as well. We had record sales in our Electronics segment, supported by the outsized growth of Balboa, which we acquired in November of 2020, as well as Enovation Controls, which had its highest quarter since Q3 of 2018. Hydraulics also performed well as markets are recovering. In fact, our quick release couplings business set a new sales record in the quarter as the ag market is quite strong and construction equipment is also driving demand for our products.

Additionally, our CVT business has returned to its best-in-class lead times. This, combined with our top-tier technologies, is driving market share gains. We continue to make great progress with the new customers we have targeted across both business segments to test our diversified market strategy with. We recently started working with another one and our close functional teams are meeting along with engineering reviews and collaboration. In both Hydraulics and Electronics, we have started receiving orders from a number of these customers for new diversified applications.

We are very pleased with how responsive the market has been in just a few quarters worth of work, validating our strategy. Combined, this all delivered 58% top line growth in the quarter. Thanks to the entire Helios family for all of the incredible hard work and dedication to produce such great results.

Our operating and EBITDA margin improved nicely, despite the supply chain headwinds that the world is facing, including higher freight costs, raw material price increases and shortages of

electronic components. Gross profit reflects the changing mix in our product portfolio, but the significant operating leverage and higher volume expands operating income and margin.

We generated approximately \$15 million of cash from operations in the quarter, with 170% TTM cash conversion. With this cash, we will continue to delever the balance sheet. And to top things off, we continue to execute well with our flywheel acquisition strategy with the definitive agreement we announced yesterday to acquire Shenzhen Joyonway Electronics & Technology Company. They are a fast-growing developer of control panels, software systems and accessories for the health and wellness industry. This transaction positions us to cost effectively expand our electronic controls platform with more capabilities, strengthens our supply chain through broader geographic reach, and increases our manufacturing capacity to meet growing global demand with the opportunity to improve our margins over time. The facilities are located in the Silicon Valley of China and puts us at the heart of electronics and controls technology advancement in Asia. We could not be more pleased and look forward to welcoming the Joyonway colleagues to the Helios family.

Given our strong start to the year, we are raising our full year outlook, which we will review in more detail later in our remarks.

On **Slides 4 and 5**, I will touch on some financial highlights for the quarter, then Tricia will go into more detail during her prepared remarks. First quarter net sales grew to nearly \$205 million and Balboa, which has been part of Helios for about five months, well exceeded our expectations. We were able to expand capacity and enhance productivity to capture the increased market demand. Our adjusted EBITDA margin grew to 25.1% compared with last year, an increase of 160 basis points. Non-GAAP cash EPS of \$0.99, or 77% annual growth, reflects the better-than-expected performance of both segments.

All in, the first quarter demonstrated a very solid performance by the entire company and was a direct result of the plans we put in place in the second half of last year with excellent execution by the Helios team against those plans. I will now turn the call over to Tricia to review the financial results and outlook in a little bit more detail. Tricia?

Tricia Fulton: Thank you, Josef, and good morning, everyone. On **Slides 6 and 7**, I will review our first quarter consolidated results. As Josef mentioned, we delivered significant growth in the first quarter, supported by our focus on delivery lead times, our expanding sales channels, strong end markets and, of course, the addition of Balboa, which exceeded our expectations.

Net sales grew 35% sequentially and 58% over the prior year period as we executed our growth plans. First quarter gross profit of \$75.4 million increased \$22.7 million, or 43%, compared with the trailing quarter and \$23.5 million, or 45%, over the prior year period from higher volume. While consolidated organic volume was up over the fourth quarter, gross profit was also affected by the mix of products sold, Balboa's gross margin profile and the impact on operations from increasing freight costs. We are working to offset the impact of these items with cost containment, adding shifts to reduce overtime and working on our global supply chain efficiency program. Gross margin was 36.8% and was impacted by the difference from Balboa's margin profile, supply chain constraints and increased freight costs.

Adjusted EBITDA margin grew to 25.1%, or 160 basis points, compared with the same period a year ago and was up 190 basis points compared with the trailing quarter, reflecting our cost management efforts, productivity improvements and the contributions of Balboa.

Non-GAAP cash EPS improved \$0.39 to \$0.99 for the first quarter compared with the trailing quarter and was up \$0.43 compared with the prior year period, reflecting the better-than-expected performance of the Balboa acquisition. I should point out that our effective tax rate for the first quarter was 23.2% compared with 22.3% in the prior year period before impairment, primarily due to increased earnings in higher tax jurisdictions.

Please turn to **Slide 8** for a review of our Hydraulics segment first quarter operating results. As Josef mentioned, in Italy, our QRC business had its company record high sales quarter. We are growing that business through a combination of leveraging customer relationships, deeper geographic reach and from strong demand in the construction and agricultural end markets. The cartridge valve technology business is also seeing marked improvement, as the distributor channels are depleting inventories and beginning to restock their shelves.

Combined, these efforts delivered solid Hydraulics sales of \$119 million, up 15% over the prior year period. Foreign currency exchange rates provided a positive \$5.7 million impact on sales. By region, the segment had growth in both EMEA and APAC, reflecting end market demand. QRC had strong growth in APAC, driven by China. Sales in the Americas were down due to softer end market demand, but with strength in certain markets such as ag.

Q1 Hydraulics gross profit benefited from higher volume, while margin was constrained with rapidly increasing freight costs and efforts to provide deliveries on time to customers. Operating margin of 23.6% compared with 20.7% last year reflects operating leverage on higher volume. In fact, CVT has significantly improved their operational performance over the last seven months, getting back to their top-tier lead times in executing well on cost containment.

I should note that we are intentionally being very selective with price increases in our Hydraulics business. Instead, we are positioning to gain market share while uncovering additional productivity efficiencies to drive margins.

Please turn to **Slide 9** for a review of our Electronics segment first quarter operating results. As we said earlier, Balboa exceeded our expectations and was a significant contributor to our Electronics segment sales for the first quarter. We could not be more excited by the potential this acquisition continues to bring.

Electronics sales were \$85.7 million compared with \$25.7 million in the prior period, an increase of 234%. Growth drivers include the first full quarter of Balboa revenue, new product introductions and strong demand in the recreational and health and wellness end markets. Notably, our organic business was up very healthy double digits, driven by record demand in the recreational markets. Electronics segment gross profit of \$30 million in Q1 increased with the acquisition and higher volume. Electronics gross margin was 35%. This reflects the impact of mix, primarily related to the different margin profile of the Balboa acquisition.

Operating income for the Electronics segment of \$18.3 million doubled the trailing quarter and was almost four times greater than the prior year period. Operating margin improved to 21.4%, up 270 basis points, for the same reason. The 2021 first quarter margin reflects the strong operating leverage inherent in this segment.

Please turn to **Slide 10** for a review of our cash flow. Cash from operations was \$15.1 million in the first quarter. We are carefully balancing our working capital requirements with our efforts to provide timely deliveries to our customers amidst record demand. For the quarter, CapEx of \$5 million represented about 2% of sales. While our plan for \$30 million to \$35 million in CapEx for 2021 is unchanged, as a result of higher sales, it will likely be closer to approximately 4% of sales for the

full year based on our updated outlook. Free cash flow was \$10.1 million at the end of first quarter, equating to a TTM free cash flow conversion rate of 170%, as Josef mentioned.

We believe we have significant financial flexibility to further pursue our flywheel acquisition strategy.

Regarding our capital structure on **Slide 11**, we continue to rapidly delever our balance sheet with a pro forma net debt to adjusted EBITDA leverage ratio of 2.65x. This has improved from the 3x at the end of 2020. Total debt was \$452 million at quarter end, reflecting total repayment of \$10 million during the quarter.

At quarter end, we had \$150 million available on our revolving lines of credit with total liquidity of \$176 million. As most of you are aware, our financial strategy is to increase leverage for disciplined acquisitions and then generate the cash to quickly pay that down. Our capital priorities are debt reduction, organic growth through new products and technologies, acquisitive growth, and finally, distributions to shareholders. We have been a consistent dividend payer over the last 24 years. We recently paid our 98th sequential quarterly cash dividend on April 20 of this year.

Now, let's turn to **Slide 12**, and I will discuss our outlook for the rest of 2021. While the second half of 2021 is not yet fully visible, we are definitely encouraged with the strength we are seeing in our end markets and the success we are having in diversifying our markets and gaining new customers. Our guidance for 2021 assumes constant currency using quarter end rates as well as the assumption that our markets will continue to recover from the global pandemic. We are raising our revenue outlook for 2021 to the range of \$740 million to \$750 million, which implies a growth rate of approximately 42% at the midpoint of the range.

Adjusted EBITDA margin outlook remains unchanged at 23% to 24%, as we continue to leverage our manufacturing efficiencies to offset the higher raw material costs and freight expenses in the macro environment. This implies we are raising our expectations for adjusted EBITDA dollars to the range of \$170 million to \$180 million or 44% annual growth rate at the midpoint of the range. Additionally, we continue to invest through non-CapEx-related items into our manufacturing strategy to reap the rewards of margin improvement over the long term.

Interest expense outlook at current borrowing levels and rates remains unchanged at \$16 million to \$18 million. The effective tax rate for 2021 is expected to be in the range of 24% to 26%. Depreciation is expected to be about \$22 million to \$24 million, and amortization will be approximately \$30 million to \$31 million. We are raising our non-GAAP cash EPS outlook to between \$3.30 to \$3.50 per share or a 52% increase over the prior year at the midpoint of the range.

The increase in our guidance for 2021 is driven by the strong end market demand we had in the first quarter and expect to continue throughout 2021. We are able to leverage our fixed cost base and maintain our strong margins, even given the headwinds on material costs and logistics and our decision to manage pricing to our competitive advantage.

With that, I will turn the call back to Josef for some final comments.

Josef Matosevic: Tricia, thank you. Again, we had a very strong start to 2021 and are encouraged with the results we are having in the early stages of our mission to diversify our products and end markets. We are making excellent progress on our augmented strategy. We are structuring the organization to deliver long-term growth with top-tier margins and we are confident in the management team's ability to execute.

We are creating an organization that provides greater benefits to our customers and is rooted in our shared core value system to deliver on our mission. We are very excited about where we are going as a company and hope you will join us in that excitement.

We are hosting an institutional investor and professional analyst day here in Sarasota on June 15 and hope that you will be able to join us. If you can't travel to our location, the event will be broadcast through our website as well. Our plan is to help you see how we will deliver outsized growth, that we are disciplined acquirers with a well-constructed plan, and that our margin journey provides expansion potential.

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

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

Nathan Jones: I wanted to start on some of the pricing commentary that you were making, Tricia, and that you are looking to offset some of this inflation that you're seeing with productivity rather than pricing. It's been a fairly unusual position for most of the companies I cover, at least this quarter, who are looking to pass-through inflation at least dollar-for-dollar and some of them with margin on it. I think the comment was specifically on the Hydraulics products. So maybe you can talk about a little bit about that strategy, what benefits you think it's going to get in terms of share, and then, whether that's the same kind of outlook on Electronics?

Tricia Fulton: Yes. On the Hydraulics side, we have made manufacturing improvements. We had a lot of discussions, probably over the last 18 months or so, about the CVT business, in particular, bringing together the operations in the Sarasota plant. I think they've done a very good job of increasing the capacity of those plants in being able to get more product out the door in a more efficient way, and we believe that's going to benefit us going forward.

In addition to that, we have a new expansion project going on in Italy to ramp up the capacity that we have in the main factory for our QRC business. That project has started and will continue probably over the next 18 months or so. We already have started getting machines into that business, so we're seeing increased capacity already from those new machines being in place. We're also going to be expanding the actual footprint of the factory.

We're also looking on the CVT side at the Kunshan plant that we have in China in bringing in more capacity there as well. So, we think we're in a really good position to be able to leverage what we have in place and, with the new things that are coming on, be able to get more products out the door as we continue to see demand ramp in both QRC and CVT throughout the Hydraulics segment.

So, I think that we have some opportunity here to take market share as we move forward without having to take severe pricing action, even though we are seeing some cost increases on the material side.

Nathan Jones: And then, any comment on pricing on the Electronics side? I would assume that the inflation is even worse there than it is in the Hydraulics business. Are you keeping pace with pricing there or are you looking for productivity on that side as well?

Tricia Fulton: It's a little bit of both there. We already had a small price increase on the Balboa side for the plastics business. We saw a pretty steep ramp in the resin costs for our plastic products, primarily through Balboa, but also some in Enovation as well, and we were able to put through a price increase quickly on the Balboa side to cover some of those costs. We are seeing pricing ramp-up on the component side for the Electronics, but we're also doing, I think, with our

supply chains, a really good job of getting ahead of that and placing orders even out into the end of 2022 to make sure that, one, we have supply, but also that we're getting some decent pricing on that as well in this very difficult pricing environment.

So, it's a little bit of both. In the Mexico factory, on the Electronics side, we've made some really great strides over the last few months of being able to get more capacity out of that factory on a daily basis. Also, we see very strong demand in the health and wellness, and that seems to be continuing as we go into 2021, so we want to make sure that we have the capacity to be able to meet that demand. I think we've done an excellent job of ramping that up pretty quickly.

Nathan Jones: And just one on the distributor inventories. I think you said you believe that distributor inventory declined in the first quarter, so sell-out more than sell-in. What is included in guidance? What expectation do you have for restocking at the distributor level for the rest of the year?

Tricia Fulton: We don't have a specific percentage of restocking, but we're anticipating based on the feedback that we've gotten from distributors, both in the reports that we get from them quarterly as well as discussions with them, that they're starting to ramp back up, specifically on the larger OEMs that they're servicing with parts. We're starting to see that flow through the order patterns, specifically at CVT because that's where the majority of the distributor business is.

Operator: The next question is from Mig Dobre with R.W. Baird.

Mig Dobre: I'm wondering if we can get a little more specific on the Electronics business. Balboa did well. Can you give us a sense for what the revenue contribution from Balboa was in the quarter and how did that go relative to what you were expecting?

Josef Matosevic: Well, Mig, I think Tricia mentioned in her prepared remarks that, in terms of the organic growth component, all of our businesses actually had a healthy double-digit growth. Balboa clearly contributed very significantly, but so did everyone else. We are really well balanced in terms of organic growth and growth through acquisition.

Mig Dobre: Okay. So, you're not willing to provide specifics in terms of the revenue contribution? I'm trying to calculate the organic growth for the business in the quarter.

Tricia Fulton: Yes. We are not going to give specifics on the Balboa business. I think Josef framed it pretty well by saying that the organic business grew healthy double digits. We also commented that Enovation, itself, had its highest quarter since Q3 of 2018. We're reporting on segments, and we'd like to keep it at the segment level.

Mig Dobre: If I look at your revenue outlook for the year, the change in outlook, you raised your revenue guidance by \$55 million at the midpoint. I'm sort of curious as to what the buckets or the moving pieces to this guidance adjustment are? How much of this is maybe your Hydraulics business doing a little bit different than what you planned initially versus Balboa being better than you expected versus the core Electronics business?

Josef Matosevic: I think it's pretty even, Mig. If you look across our spectrum of businesses, with QRC in Italy, we have more visibility in that area and feel that QRC will continue to have a strong year and be in the ZIP code of healthy double-digit growth here quarter-over-quarter. When we host our distribution calls here on a monthly basis and get their feedback in terms of inventory levels, we're starting to get a sense that replenishment will start kicking in. We just don't know at what levels it would speed, but we know they are coming.

That's why our strategy is, when we talked about the pricing, we certainly will take some pricing actions in some commodities, but our strategy will shift to more of a market share gain with the manufacturing strategy supporting a margin improvement journey. In the Electronics business, we have also a little bit more visibility on the Balboa side. On the recreational side, we know our new product launches have begun, and they're rolling out with specific customers, and there's no cancellations into rolling out on time. So, all combined, Mig, this gets us to a comfort level that this guidance is real, it's fair, and we can achieve it.

Mig Dobre: I'm glad you feel that way. Then I guess, maybe my final question. I'm trying to think through the cadence of the year here, right? If I look at the way you frame the top line, it seems to imply to me that Q1 is the highest revenue quarter of the year and succeeding quarters are going to have lower revenue, which to some degree is, at least to me, counterintuitive. I would imagine that the business sort of builds sequentially in terms of end market demand, and there's also the seasonality aspect of maybe Q2 and Q3 being better than Q1.

But again, that's kind of how it used to be back when we were just talking about the CVT business. You've added some new components, so I'm kind of curious here. Is it Balboa that has really strong seasonality early in the year, and it's reflected in Q1 results and we should be expecting that to weigh in as the year progresses? Or is there some other cadence that you feel comfortable sharing with us?

Tricia Fulton: For Q1, yes, I mean the Balboa business came out stronger than we had anticipated. We had the demand there. We had the backlog. What we were lacking a little was the throughput. But, with some of the improvements that we've made in the Mexico facility through the global ops team, I think we've done a good job of being able to get more product out the door than we thought we were going to be able to or that they were doing before the acquisition or even back into Q4.

So that came out a little stronger than we had anticipated. CVT was also a little stronger than we thought. You might recall, for the last couple of quarters, we've been talking about ag being strong, recreational being strong, health and wellness being strong, so they've been strong for several quarters. There's not full visibility, as we said, into the back half of the year. We can see that the first half of it seems like it's still staying pretty strong, but we have just a little less visibility going into the third and fourth quarters.

There's no normal seasonality right now, especially if we look at the historical Sun business, I think we have to sort of throw seasonality out right now, given some of the dynamics that are in the end markets. We're very happy with the really strong Q1 that we had. We do have very strong demand continuing in many of these end markets. If I look at our internal end market chart, there's a lot of green on it, and that feels good, but there's also always that little bit of uncertainty about where the back half of the year is going.

Operator: The next question is from Josh Pokrzywinski with Morgan Stanley.

Josh Pokrzywinski: Just a follow-up on some of the pricing commentary and questions there. Now, I would agree with the earlier observation, I think it was from Nathan, that it's kind of atypical amongst industrial companies right now, and we've heard probably a bit more on trying to gain share through lower lead times or more consistent delivery rather than price. So, I was just wondering if you could comment on what you're seeing out there with your customers, or yourselves, on any dislocation in lead times, and if that's something that is maybe putting more of a focus on price if lead times in some of those industries aren't as just some differentiated versus peers?

Josef Matosevic: Yes, Nathan. When we originally built out that strategy, a part of our augmented strategy is to have a manufacturing road map that's supported by a strong plan in the supply chain, operations, manufacturing and materials areas and build out a bps margin journey over the next two or three years that will contribute to improved overall margins. So, that strategy is complete and is being rolled out as we speak and led by a very strong team. That's piece number one.

Piece number two, when we look across our spectrum and some of the folks we compete with, their lead times have significantly increased where our lead times are back to what they should be in the leading category. So, that was data point number two. We certainly have taken pricing action on some commodities, but putting all together and looking at this from a holistic strategic standpoint, I really felt that this is our time to take some market share and take advantage of the lead times we have. We have very strong products being launched in terms of new products, existing products, and the customers have reacted.

That's why we are saying, yes, Balboa was very strong in terms of Q1, but let's not forget that the organic business across the spectrum of our businesses has also been very healthy in the double digits. It's really a balanced approach. We are benefiting from those good lead times. We are benefiting on really strong orders, and we feel good about where we're going, That's why we are very methodical what pricing actions we are taking because we believe we can get to the other side and post that stretch in supply chain much stronger, much better with a significant organic growth component.

Josh Pokrzywinski: Got it. And I guess, just related to that, is this more with new customers, existing customers or is it some sort of platform win that you're targeting where it ends up being sticky? What gives you the confidence that you're not renting share in the short-term versus something that may be a bit more sustainable?

Josef Matosevic: On the Hydraulics side, clearly, it's with existing customers, and in many cases, new customers as well as they really don't have anywhere to go to get the product as quickly as they want to. And then, our diversified market strategy, obviously, contributes to that very healthily as well. On the Electronics side, the bulk of it is pretty much all with existing customers.

Josh Pokrzywinski: Got it. And then just one last question. As it pertains to visibility, I know you don't really talk about backlog so much, but that was a bit of a driver last year. I think in the third quarter you said, hey, 2Q was better than folks thought because we chewed up some backlog in the meantime and were a little leaner coming in the second half. What's the status of rebuilding that now and how do you calibrate that in the moderation in revenue trends here as the year goes on?

Josef Matosevic: Our visibility is clearly tied into our guidance, so we have put out this guidance very carefully, very methodically, and we believe we can hit it. I really don't want to get into specific backlogs at this point, but we have enough visibility within the business that we feel we will hit our guidance with the expected margin portfolio, and we will continue to grow this business organically and through acquisition, as we already announced this quarter.

Operator: The next question is from Jeff Hammond from KeyBanc Capital Markets.

Jeff Hammond: Going back to the moving pieces in the guide, it seems like, versus my model, it was Electronics that really drove a lot of the upside, and particularly Balboa, just based on your comment on the core. And so, is the guide, I think you said, Josef, pretty balanced or is the lion's share of the guidance raise on the Electronics/Balboa side?

Josef Matosevic: It's the first one, Jeff. We have a very healthy balance here between organic and inorganic growth.

Jeff Hammond: Okay. On the 8% revenue guidance raise, you're leaving your EBITDA margins range unchanged. I guess, when I think of your business, I think of 30% to 35% increments, but this 8% increase would imply you're incrementing in the low 20s. Is that this price versus share dynamic or is there conservatism in there? Or is there something else I'm missing?

Josef Matosevic: Well, clearly, the majority or the big part is what you just said, it's the very methodical pricing that we're looking. I mean, some of the commodities, obviously, have increased. There's a higher freight cost and we are very disciplined on how we're approaching this. So, you did see an increase, obviously, in overall dollars based on our guidance, but yes, to answer your question, it's all related to supply chain. We feel, longer term, with the manufacturing strategy we have in place, we will get to a much better place a couple or three quarters from now, taking the current approach we are taking and gaining market share and position our customers to be able to compete more effectively and start shifting orders our direction.

Jeff Hammond: Okay. And then, is there anything you can give us on this acquisition in terms of relative size, what the annual revenues are or what the long-term growth rate of the business is?

Tricia Fulton: First of all, we just signed the deal. We haven't closed on the deal. We expect to close sometime in the third quarter. This is not going to be a material acquisition for us from a top line perspective. It really brings us technology and scaling their existing products will give us manufacturing in China. That will help us with our "in the region, for the region" strategy, which also will, as Josef pointed out, continue to drive those margins upward over time.

We're looking at this not from a big plug on the revenue top line side, but more as a technology expansion and footprint expansion within our Electronics segment.

Jeff Hammond: Okay. And then, if I could just sneak one more in, help me to understand the difference between the EMEA strength in Hydraulics versus the relative weakness in the Americas? Is that timing or is that the backlog dynamic that Josh referenced? Help me understand, because it seems like most of my companies are talking about North America leading us out here?

Tricia Fulton: I think it's partly end market driven and partly sales channel driven. So, on the EMEA side, the majority of the Faster business is with large OEMs, and that's really what's driving the EMEA growth that you see on the Hydraulics side. On the Americas side, it's very highly driven by the distribution channel for the CVT business and, as you know, they had excess inventories in place at year-end that they were working through.

If you recall, we're also comparing with a period in Q1 of '20 where we had very high backlog in the CVT business and we were shipping as much as we possibly could, so it's a difficult comparison on the CVT side as well for Q1. I think that we are seeing strong demand coming back now in the Americas, and we'll see that ramping up a bit, and already have, but what drove the EMEA Hydraulics really was the strength of the Faster business in Q1 on the ag side.

Operator: [Operator Instructions] The next question is from Mig Dobre with Baird.

Mig Dobre: I guess my question is sort of on cost structure in general, and I'm wondering, Trish, you have a fairly short-cycle business. I'm assuming that you are fully experiencing the full force and brunt of higher input costs, higher freight and the supply chain disruption. Correct me if I'm wrong on that. I'm just wondering, is there potential here for things to actually get worse or more challenging as you look at maybe like Q2 or Q3 in terms of how these inflationary pressures flow

through your P&L, or not, or are you basically caught up with the environment and it is what it is and it's kind of reflected in the results?

Tricia Fulton: We are seeing cost pressure on the component side. It's clearly worse on the Electronics side than on the Hydraulics side at this point in time. We did anticipate some of those coming into the year. We were already getting indication that there were shortages and that we needed to buy ahead and reserve our spots and have secondary sources. Sometimes those secondary sources do create a little bit of pressure on the cost of the components that we're buying, but we had built some of that in already.

We are seeing higher freight cost. A lot of our freight costs are coming from us trying to get the product to the OEM customers as quickly as we can so they are able to get product out the door for them as well. We're definitely seeing it, but we also, as you know, in this business, get some pretty strong leverage on our fixed costs on the higher revenue levels. We're definitely seeing the advantage of that in Q1 as well and should continue to see that throughout the year, if the revenue levels stay high.

Mig Dobre: Yes, that makes sense. I guess, where I'm going with this is if I look at your Hydraulics business, you had very nice margins in Q1, operating margin of 23.5%. The way you were talking about demand building out and, hopefully, the distribution portion of the business is picking up here, which I presume that's margin accretive for you doing business through distributors, I'm just wondering here, is there a reason for us to think that margins would be lower sequentially in your Hydraulics business in subsequent quarters relative to Q1? Because if that's the case, it's not entirely obvious to me as to why that would be.

Tricia Fulton: What could cause that would be if we start to see the ag business slowing back down. As we pointed out, it's been strong for several quarters, so if we see that slowing down, we lose some of the leverage opportunities that we have in the Faster business that could affect margins in the back half of the year in the Hydraulics side. But you're right, the distribution business and CVT in general can get tremendous leverage off of their higher revenue. It's a delicate balance between the two technologies within the Hydraulics segment.

Mig Dobre: Understood. And lastly, a similar line of thought for Electronics. If we're recognizing that a good portion of the outgrowth relative to expectations came from Balboa, you're going to have to remind me here, but my sense was that Balboa was coming in with operating margins that were in line to maybe below the segment average in Electronics. I don't know if that's correct or not. Once again, though, as the year progresses, is there a reason to think that margins need to be meaningfully lower than what you have experienced in Q1 in this business?

Tricia Fulton: On the Balboa side, as we pointed out a couple of times, their gross margin profile is very different from what we've seen historically in Enovation. They also don't have the engineering cost in the SEA that we see in Enovation, so they're able to very quickly leverage on the higher volumes that we're seeing now with the increased output that we've been able to achieve in the Mexico factory, really good leverage at the operating income level. Even though their gross margin profile was different coming in, they are still able to contribute very well at the operating income level.

Mig Dobre: And going forward?

Tricia Fulton: Going forward, I would expect that to continue. I mean, we're still making a lot of productivity improvements in the Mexico plant, which is the primary manufacturing facility for Balboa. As we continue to make those changes in how they're doing production and bringing in

some new equipment into that factory as well, I think we're going to continue to see that they're going to get leverage, definitely at the operating margin, but probably, over time, also ticking up the gross margin.

Operator: This concludes the question-and-answer session. I would like to turn the call back over to Josef Matosevic for closing remarks.

Josef Matosevic: Thank you very much for joining us today. We certainly appreciate your interest in Helios and look forward to updating all of you on our second quarter in August. 2021 is shaping up to be a very strong year for us, but this is just the early stages of our journey. We are confident in our ability to continue to grow and deliver value. Have a great day and stay healthy.

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