Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies Fourth Quarter 2024 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. Sean was promoted to President and CEO in early January of this year. The Company is currently conducting a search for a new CFO. Also joining us is our Vice President, Corporate Controller Jeremy Evans. Jeremy joined Helios in January 2024, some of you have met him before either telephonically or at an investor conference.

Sean will start the call with highlights from the 2024 fiscal year then hand it over to Jeremy to review our fourth quarter and full year results. Sean will then conclude our prepared remarks with our 2025 outlook, financial 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 have been provided in our 10-K filing filed in February 2024 as well as our upcoming 10-K 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 **Slide 3** 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 jumping into the fiscal year 2024 results and our outlook for 2025, I would like to start with a few comments reflecting on the past year. We continued investing in innovative new products despite stubbornly depressed end markets that have pressured our top-line sales. Our most impactful product introductions in 2024, on the Hydraulics side, included launching 11 new cartridge valves including an electro-proportional flow control valve and a commercialized ENERGEN™ valve. On the Electronics side, we launched PowerView™ U150 15-inch and PowerView® U120 12-inch Displays, SenderCAN® Plus solution, and the PowerView™ U35

Display. On the service and software side, we issued a press release last week highlighting the work our team at i3 Product Development did with Alto-Shaam helping to rebuild their ChefLinc™ infrastructure, ensuring a more robust and scalable commercial kitchen solution. That solution also integrated our Cygnus Reach remote support technology which empowers their service teams to not only provide real-time insights into oven performance but can also diagnose issues remotely and address potential concerns before sending out a field technician. This is our first customer case study showcasing our entry into the commercial food service market.

Our teams also stayed close to our customers in the regions we serve them, while actively showcasing our leading brands at tradeshows across the globe. We drove operational efficiency and have been rightsizing our cost framework thoughtfully, with year-over-year operating expense declines each of the last three quarters. For the year, we had record cash generation as we focused on our cash conversion cycle with a concerted effort to reduce inventory. We further strengthened our balance sheet and improved our financial flexibility by reducing and refinancing our debt that resulted in lowering our borrowing spreads. Despite hurricanes, challenging market conditions and leadership changes, the global team united to support each other and importantly, our customers, while delivering on operational improvements that have enabled us to expand quarterly margins on softer revenue. I am incredibly proud of how my colleagues persevered through it all and humbled to be leading such an incredible team.

Before I hand the call over to Jeremy, I would like to highlight that during my first year with the Company in my CFO capacity, I prioritized building upon the strong foundation my predecessor had put in place. This included an assessment of the finance and accounting team along with the structure to align them as business partners within the organization. Early organizational moves I made were to insert segment CFO's into the business and top grading talent in both voluntary and involuntary attrition. Jeremy was my first strategic hire to top grade our Corporate Controller position, bringing a wealth of experience from his 25 years at Tech Data, now TD SYNNEX. While there, his responsibilities scaled with the company over the decades across logistics, procurement, sales operations, finance, and accounting. His servant leadership management style, paired with his global mindset and experience in a larger organization has made him invaluable to the Company. I have relied on his expertise, and he has been a great business partner to our leadership team. Jeremy, over to you.

Jeremy Evans, Vice President, Corporate Controller

Thanks, Sean. My first year serving as Corporate Controller at Helios has been an exciting one as I've learned about the Company's exceptional brands and met many members of our outstanding global team. I'm proud to be part of such a strong leadership group that has shown great collaboration this past year navigating through internal changes and macro challenges in our industry. Now, turning to our fourth quarter results, please reference **Slides 4 through 8**.

Sales in the quarter were $180 million, landing the year just above the upper end of our recent guidance range. Market growth in health and wellness partially offset the continued weakness in the agriculture, mobile, and industrial markets while recreational markets remain depressed below historical levels. Our fourth quarter is typically the seasonally weakest quarter in the year given the holidays and was also impacted in 2024 because of Christmas and New Years being midweek.

By region, sales in APAC continued to improve driven by the strength of our Australian Custom Fluid Power business, helping to offset declines in EMEA and the Americas. As a side note, Custom Fluid Power as a distributor operates below our company's average margin profile. Foreign exchange unfavorably impacted sales by $100 thousand dollars.

For the quarter, gross margin expanded 150 basis points over last year despite the 7% decline in sales. Likewise for the year, while sales were down 4%, gross margin remained unchanged. This is a direct result of realizing targeted pricing benefits in combination with actions taken to improve productivity and take out costs. Our objective is to return to the mid-to-high 30 percent range for gross margin over time, predicated on volume growth.

We have refined our focus on driving returns on invested capital and working to deliver growth targeting our historic margin profile. To achieve these goals, we are reenergizing our sales engine. This starts with a clear focus on the customers and channel partners who have been with us for decades and identifying how we can further cross-sell as well as capture more share of wallet from our existing customer base. Beyond that, we will look to grow through markets that our leading products position us well to win by targeting new business to drive incremental growth. We are also using our mantra of continuous improvement on the way we innovate. To support this effort, we are simplifying the business and have reorganized the Helios Center of Engineering Excellence. We are moving the engineering expertise into our business segment operations and will close our facilities in San Antonio, Texas by mid-year. We are pivoting the organization to drive a customer centric, sales-oriented culture that leverages the strengths of our hydraulics and electronics engineering expertise, our high-quality product portfolio, and our solid customer relationships.

Operating income in the fourth quarter grew 12% despite the decline in sales and operating margin expanded 120 basis points to 7.4%. On an adjusted basis, operating margin of 13.3% was up 70 basis points from last year. This improvement was the result of a 7% reduction year over year in SEA expenses combined with strengthened gross margin. Adjusted EBITDA margin expanded 70 basis points over the prior year period.

Our effective tax rate in the fourth quarter was 37.2% while the full year effective tax rate was 22.8%. This came in higher than our guide due to a change in the income mix in the various tax jurisdictions as well as some discrete items in foreign jurisdictions. As most of you realize the effective tax rate is based on the full year and quarters can vary based on discrete tax items from period to period.

Diluted EPS was $0.14 in the quarter, up 40% over last year due to one-time gain on insurance recoveries related to the 2023 fire and weather-related incidents at our Faster facility in Italy. Diluted Non-GAAP EPS was $0.33 in the quarter, down 13% over last year. Fourth quarter EPS was negatively impacted by $0.04 compared to our guidance due to the higher effective tax rate and foreign exchange impacts.

Starting on **Slide 9**, I'll give more color by segment. Hydraulics sales declined 10% over the prior year period. This decline reflected weakness in agriculture and mobile end markets. Foreign exchange had an unfavorable $100 thousand dollar impact on segment sales. Keep in mind that our Sun Hydraulics business based in Sarasota, Florida contended with the impacts of Hurricane Milton early in the quarter combined with the previous two hurricanes before it. Our entire Sarasota operations lost production across 18 cumulative shifts.

Hydraulics gross profit and gross margin contracted year over year, 14% and 110 basis points respectively, on lower sales volume. SEA expenses were down 10% compared with the prior-year period demonstrating the assertive efforts of cost control and streamlining our business given the current demand environment. Operating income was down $3.5 million reflecting the contraction in gross profit, with offsetting SEA cost control benefits.

Please turn to **Slide 10** and we'll discuss the Electronics segment.

Year over year, Electronics sales were relatively unchanged. Higher sales in health and wellness helped counter ongoing declines in mobile and industrial end markets compared with the same period last year. Our advanced new PowerView™ products made headlines during the quarter, as we won a key position on select MasterCraft boats.

Electronics gross profit increased $4.4 million on flat sales, while gross margin expanded 730 basis points over last year reflecting operational improvements and lower material costs while also leveraging lower cost manufacturing in Mexico. SEA expenses were contained year-over year despite inflation given the work on cost take out. As a result, operating income measurably improved with stronger gross profit and stabilized SEA expenses.

Slide 11 shows we focused heavily on cash management this past year, as it was a cornerstone of the financial priorities Sean implemented when we started the year. Our efforts paid off with a free cash flow conversion rate of 244%. We generated cash from operations of $35.7 million in the quarter, a 6% improvement over the fourth quarter last year. We used that cash to meaningfully reduce debt and strengthen our financial flexibility. For the year, we achieved record cash from operations of $122 million! I commend the team's work, and optimizing cash flow will remain a focus for 2025.

We reduced inventory in 2024 by $25 million, or 12%, a critical area for improving our liquidity and generating cash to reduce debt. Capital expenditures in the quarter were $7.4 million, or 4.1% of sales, and totaled $27 million for the year, or 3.4% of sales, as we prioritized projects based on returns. Our capital expenditure plans for 2025 will be focused on tooling, maintenance, and productivity enhancements that demonstrate evident returns on invested capital.

Turning to **Slide 12**… At the end of the fourth quarter, cash and cash equivalents were $44 million, and we had $352 million available on our expanded revolver. Despite sales contraction in the year, we have reduced total debt by 14%, or $75 million with consistent reductions over the last six quarters. Our net debt to adjusted EBITDA leverage ratio is down to 2.6 times and we expect to reduce this further throughout 2025.

Given our strengthened balance sheet and improved financial flexibility, our capital deployment priorities are evolving. In the near-term, we will continue to pay down debt and invest organically in innovation and productivity. In addition, we intend on continuing to prioritize dividend payments which we have consistently done for over 27 years. We are also pleased to announce our inaugural share repurchase program. The continued execution of our strategy and accompanying growth initiatives support our confidence in Helios' continued cash flow generation capabilities and improved earnings profile. The share repurchase program will complement our acquisition strategy and illustrates our continued commitment to a disciplined capital allocation strategy, delivering attractive full cycle returns and maximizing value to our shareholders.

I will now turn the call back to Sean to speak to our 2025 plans and initial guidance for the year, Sean…

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

Thanks, Jeremy. Turning to **Slide 13**, we are establishing our outlook for 2025 with sales in the range of $775 to $825 million dollars. While we expect that in general, markets should start to improve as we advance through the year, we are constructing our outlook cautiously to the extent they do not. We expect adjusted EBITDA for the year of $140 to $165 million dollars. This represents an adjusted EBITDA margin of 19.0% at the mid-point of the range. As the markets recover and our volumes grow, our capacity utilization will improve resulting in enhanced margins.

Touching briefly on tariffs, as a part of our facility footprint and global supply chain, we have manufacturing operations in the Americas region, including Mexico, the EMEA region, and the APAC region, including China. We have been evaluating potential impacts and assessing our options under various scenarios. There are many potential outcomes of the tariff regulations as well as several different approaches we could consider pursuing in response once we know what the final rulings will be. As an example, as we look at our Electronics segment, we have proactively moved some manufacturing lines from Tulsa to Tijuanna to take advantage of labor and overhead savings which are currently being realized. We have the available capacity to move those lines back to Tulsa. This is just one example of a way we could address this issue depending on the final rulings. So, we are analyzing our supply chain and footprint for each segment and each operating company. Of course, it may not be possible to anticipate all the outcomes yet in this highly fluid environment. Our 'in the region for the region' strategy and the capacity we have invested in over the last couple of years does provide us the flexibility to move relative quickly to realign our supply chain footprint as needed.

As signaled last quarter, we inform our forecasting process with a wide array of inputs. These include feedback from customers, market data, channel inventory levels, order bookings, competitive insights, historical performance trends, macroeconomic factors, and information from our public company customer's earnings presentations. Our order bookings remain mixed, especially in EMEA, with limited markets turning positive, but we see opportunities should the macro environment improve as indicated in some data points. NFPA data and PMI data as shown in our supplemental slides are starting to either reflect or call for an improving environment starting at various points throughout 2025. Importantly, we remain confident in our market positions and customer relationships so as economic conditions improve, we intend to benefit.

We expect first quarter sales in the range of $185 to $190 million dollars, down compared with the first quarter last year, but up sequentially from last year's fourth quarter. We believe some of the actions we are taking on the cost and simplification side will show up in the form of improved margins as we step through the year. We expect adjusted EBITDA margin in the range of 16% to 17% percent in the first quarter, which would be slightly behind last year's fourth quarter with full compensation accruals coming back into the mix. As a reminder the first quarter is typically our lightest in terms of cash flow. We expect the first half of 2025 volume to be challenged, while the back half of the year sales to increasingly grow on a year-over-year basis on lower comparables. When we factor in all of our inputs including: where we are in the various trough cycles of our more challenged markets; the current indicated patterns in our order book; the downtick in distributor inventory levels; and the market indicators that are starting to improve or forecasted for improvement in 2025…We believe all of this supports our back half of the year will be slightly larger than the first half.

Slide 14 provides some additional understanding of where we see our market and operational drivers by segment to supplement the consolidated view.

Turning to **Slides 15 and 16**, I believe our results in the fourth quarter and full year validate that the financial priorities we laid out at the beginning of 2024 remain sound and continue to be a strong guidepost as we start 2025. We were able to execute, to varying degrees, on four out of the five priorities. You will see we are setting the stage now with our 2025 key focus areas to address head on how we reenergize our go to market strategies, structuring them with a customer-centric focus and an emphasis on new product development. You will see firsthand how the pace of new product launches will increase throughout 2025. We are streamlining our organization to capitalize on our customer relationships and industry knowhow. Based on how much I have witnessed this team navigate together in the relatively short time I have been with Helios, I am confident in our ability unlock profitable organic growth across the variety of end markets and applications that our highly engineered, premium products are positioned to win. Continuous innovation and regular product launches are embedded into our corporate DNA, and we will proudly continue that practice. We will invest more in developing our team as they are our most valuable asset. Finally, we are happy to announce a more sophisticated capital deployment mindset, focused on investments that drive the greatest returns along with our inaugural share repurchase program aimed at delivering long-term shareholder value creation. Our Board of Directors has authorized the Company to repurchase up to $100 million in shares which we will start executing against this year. I will highlight that we continue to seek acquisition opportunities to accelerate our growth as well as continually evaluate the makeup and footprint of our entire portfolio. Our goal is to maximize shareholder value through all forms.

In closing, I am incredibly excited about our future and confident in our ability to continue executing on our commitments as we prepare to return Helios to growth. I would like to extend a heartfelt 'thank you' to each one of the approximate 2,500 Helios employees across the globe and to all our partners, including suppliers and customers. Finally, thanks to all of you for joining our call along with your interest and support.

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.