

Operator: Greetings, and welcome to Helios Technologies Second Quarter 2020 Financial Results Conference Call. [Operator Instructions] Please note, this conference is being recorded. I would now like to turn the call over to your host, Deborah Pawlowski, Investor Relations for Helios Technologies. Thank you. You may begin.

Deborah Pawlowski: Thank you, and good morning, everyone. Welcome to the Helios Technologies second quarter and year-to-date 2020 financial results conference call. On the line with me are Josef Matosevic, our President and Chief Executive Officer; and Tricia Fulton, our Chief Financial Officer. Josef 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 is available on our website at www.hlio.com. You will also find slides there that will accompany our conversation today.

If you look through the slide deck on **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 are provided in our earnings release as well as in other documents filed by the Company with the Securities and Exchange Commission. You can find these documents on our website or at www.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 earnings release as well as in the slides.

So with that, it's now my pleasure to turn the call over to Josef. Josef?

Josef Matosevic: Thank you, Deb, and good morning, everyone. Before I begin on **Slide 3**, let me start by saying how excited I am to have joined Helios Technologies. It is a strong Company with a bright future and innovative best-in-class legacy brands. I appreciate the Board of Directors providing me with this opportunity to lead and advance Helios to its next level as we work towards our Vision 2025 Strategy.

In my first two months here, I have been impressed with the management team. They have demonstrated they're customer focused, nimble, enterprising and energetic as we adapt to the unusual circumstances of COVID-19. We continue to serve our customers, develop new technologies and look to expand our addressable markets, all while considering the safety and health of our employees. Throughout the organization, we reduced costs and improved efficiencies, even in the face of strong headwinds. In fact, we delivered results that exceeded our expectations, which we will talk about in more detail later in the presentation. Our objective through this pandemic is to stay focused and disciplined, to continue to generate strong cash flow and, importantly, to navigate into a strategic position for growth as markets recover. Our efforts are supported by a very strong balance sheet.

Even during these challenging times, we are continuing to invest in select strategic initiatives. We have several projects underway with OEMs in the powersports, Ag and construction markets. This includes an OEM pilot of our new ACE™ software tool and MCx™ hydraulic controllers. We are creating innovative solutions that combine our strong Electronics capabilities with our Hydraulics controls, and these innovations are at the heart of our potential to grow organically. We are also addressing potential opportunities to diversify our end markets. I have been impressed with our Controls technology and have identified key customer prospects, where we can create value through innovative solutions. While industrial markets continue to be challenged, we are seeing the beginning of a recovery in many end markets.

Please turn to **Slide 4**, and I will summarize our strategic business highlights for the second quarter. As everyone is aware, the COVID-19-related headwinds were quite strong in the second quarter, given the efforts to contain the spread that stalled economies around the world. All of our factories are operational and despite some positive COVID-19 cases, we have been able to manage our supply chain and production capacity to meet our customers' demands. Through all of this, our management teams have been able to adjust quickly to the changing market and business dynamics.

We rapidly implemented cost containment measures to address the economic downturn from the COVID-19 pandemic and continued our efforts to improve productivity. Due to the agility of both segments of the businesses, we performed better-than-expected in the Hydraulics segment, where the global Ag industry has remained resilient, while the Electronics segment was able to achieve plan in very challenging market conditions.

Despite lower sales, the efforts of both segments enabled us to achieve a better-than-expected consolidated decremental adjusted operating margin of 32%. Additionally, we demonstrated our strong cash-generating capabilities and realized \$25 million of cash from operations and \$23 million in free cash flow. We used the cash generated to further reduce debt, so that our net debt position improved by nearly \$17 million, furthering our strong liquidity position and maintaining our 2.1x net debt-to-adjusted EBITDA ratio.

Moving on to **Slide 5** and some financial highlights. Sales came in at \$119 million in the second quarter, supported by shipments of past-due orders in our Hydraulics segment. Our GAAP earnings per share was \$0.40. The Hydraulics segment exceeded plan expectations and Electronics was able to meet their plan. Both, sales and GAAP earnings per share beat our internal expectations. Also, both were lower than last year due to impact of COVID-19 and its effect on our business, customers and end markets.

Operationally, we realized a healthy adjusted EBITDA margin and non-GAAP cash EPS relative to our sales volume, by executing the planned cost savings and productivity initiatives we had identified.

With that overview, I will now turn the call over to Tricia to review the financial results for the second quarter and first six months of 2020 in a bit more detail. Tricia?

Tricia Fulton: Thank you, Josef, and good morning, everyone. Let's begin on **Slide 6** with a review of our second quarter consolidated results. While our global sales for the quarter were affected by the COVID-19 pandemic, the recovery we saw from most end markets and customers was faster than we originally thought it would be. April and May were difficult months from both a production and demand perspective, but we saw strong recovery in June orders and further growth in orders in July.

APAC sales were a bright spot, showing growth in Q2 over last year of 3% as we continue to take market share in China. The EMEA sales for the quarter declined 14% due to limited production capacity resulting from COVID-19, but was offset by a resilient Ag market coming out of the shutdown, which has also continued into Q3. The Americas were more heavily impacted, down 30% due to the significant falloff in the Electronics segment in Q2, which was a clear trough in that segment. The remainder of the year for Electronics should rebound from Q2 levels. As previously mentioned, our pipeline for opportunities in this segment is significant and will drive growth in 2021 and beyond.

Operational profitability was solid as a result of the cost reduction actions we took that included limited layoffs in our U.S. operations, compensation reductions by the Board and corporate officers and the measures executed across our operations to reduce costs in light of the lower demand. Josef referred to our decremental margin of 32% on adjusted operating income. Our cost containment measures led to better-than-expected decrements and adjusted EBITDA margin declined just 150 basis points to 22.6%.

Please turn to **Slide 7** for a review of our Hydraulics segment second quarter operating results. Consistent with prior periods, I want to point out that costs not directly allocable to the segments, such as CEO transition costs and amortization, are not included in our operating segment numbers; they are accumulated in our Corporate and Other segment reported in the tables in the back of our earnings release and slides.

Sales for the Hydraulics segment declined 9%, excluding the impact of foreign currency, which had a \$1.6 million unfavorable impact. From a geographic perspective, excluding the effects of currency, we saw 6% year-over-year growth for the quarter in the APAC region, reflecting strength in China as we take market share. This was offset by a 17% decline in the Americas and a 14% decline in the EMEA market, excluding the impact of foreign currency. The primary driver for the decline in the Americas and EMEA regions were softer end market demand due to the impact of the COVID-19 pandemic.

Gross profit was impacted by the lower sales volume but gross margin benefited from the cost management initiatives, down only 60 basis points from last year to 36.7%. Operating income was also down on the lower

top line, but operating margin expanded 30 basis points to 21.5% as a result of the cost containment efforts that reduced SEA expenses by \$2.8 million.

Please turn to **Slide 8** for a review of our Electronics segment second quarter operating results. This segment was heavily affected in the quarter by the COVID-19 impact, with Q2 revenue down 43% from last year. Many OEMs shut down operations for some period during the stay-at-home conditions. On top of that, the oil and gas end market has been severely impacted due to supply imbalance and the dramatic falloff in demand. We also continue to experience some carryover from our intentional shift in customer base, which involved changes in certain contractual obligations.

As previously referenced, although we immediately implemented many cost saving measures and aligned our variable work force to the lower demand, margins were nonetheless impacted by the large and immediate volume decline. Gross margin dropped only a couple percentage points to 42.1%, but operating margin contracted 16.1 points to 5.5% of sales. This segment utilizes significant engineering effort related to future OEM projects and we continue to invest to support these customer-focused solutions. Encouragingly, we saw improvement in orders in June, and there are select markets such as recreational marine that are seeing relatively strong demand throughout COVID.

Please turn to **Slide 9** for a view of our first half consolidated results. Sales were down 13% compared with the same period last year, excluding the unfavorable currency impact. For the first six months of 2020, sales to the Americas, EMEA and APAC regions were 43%, 28% and 29% of the consolidated total, respectively. Due to the uncertainty of COVID-19, we booked a goodwill impairment charge related to our Faster business unit in Q1. This resulted in a GAAP loss per share of \$0.99. Non-GAAP cash earnings per share were \$1.11. Consolidated adjusted EBITDA margin declined just 80 basis points to 23.1%, reflecting our cost management efforts as well as production efficiencies during the first 6 months of 2020.

Please turn to **Slide 10** for a first half review of our Hydraulics segment operating results. Sales in the Hydraulics segment declined 11% compared with the prior year period. Margins expanded despite the lower revenue. Gross margin increased by 60 basis points to 37.5%, and operating margin improved 30 basis points to 21.1%. This was the result of production efficiencies realized from the consolidation of our operations in Sarasota last year and the rapid actions taken to align cost with demand during this unusual COVID-19 pandemic. These achievements position us well in the economic recovery, when we see top line growth in our end markets, which will drive further margin expansion.

Please turn to **Slide 11** for a first half review of our Electronics segment operating results. Sales for the Electronics segment decreased 29% compared with the previous year. The decline was primarily due to a COVID-related reduction in demand, the falloff of the oil and gas industry and the intentional shift in customer base. Gross profit included a \$900,000 nonrecurring benefit from the release of customer contractual obligations, resulting in a gross margin of 45.3%, a decline of just 50 basis points. Operating margin contracted to 13.3% for the 2020 year-to-date period, primarily due to reduced leverage of our engineering fixed cost base.

Please turn to **Slide 12** for a review of our cash flow and capitalization. In the first half of 2020, we generated \$40 million of net cash from operating activities and \$35 million of free cash flow, up from \$21 million of free cash flow in the first half of 2019.

In the second quarter this year, we generated \$25 million of net cash from operating activities, resulting in approximately \$23 million of free cash flow. Year-to-date CapEx was \$5.2 million, down significantly from last year, when we were investing in the manufacturing consolidation project and the engineering center of excellence. We are expecting CapEx to be in the range of \$12 million to \$15 million for the full year. We are continuing to invest in high priority and critical projects, but deferring other investments until economic conditions improve.

Regarding capitalization, in the second quarter, we reduced our gross debt by \$7 million and our net debt by nearly \$17 million. During the first half of 2020, we reduced our gross debt by \$13 million and our net debt by approximately \$28 million. At the end of the second quarter, our net debt-to-adjusted EBITDA ratio remained at 2.1x, consistent with the trailing quarter and year-end 2019.

We continue to have ample liquidity. At the end of the quarter, we had \$37 million in cash, over \$205 million available on our revolving credit facility and a \$200 million accordion, which is subject to certain pro-forma compliance requirements.

Last quarter, we talked about our scenario analyses, which considered annual sales declines ranging from 15% to 25% and demonstrated that we can continue to cover our operating cash needs. We validated that with our performance this quarter. These analyses also indicate that we can expect to maintain compliance with the covenants under our credit facility and remain cash flow positive for the year under all scenarios.

With that, let me turn the call back over to Josef to conclude our prepared remarks.

Josef Matosevic: Thank you, Tricia. Let me wrap up our prepared remarks by discussing our outlook on **Slide 13** before we open up the lines for Q&A.

Due to the continued uncertainty related to COVID-19, we will not be providing guidance for the year. Our conversations with our customers were more encouraging as we moved through June into July, giving us a better perspective on the expectations. However, our customers are cautious, given the increased trend in cases, especially in the U.S. We do not expect to end the year at the low end of our scenario planning that considered drops in revenue ranging from 15% to 25%. Given the CVT business has caught up with its past dues, we expect third quarter will be the trough for the year, and the fourth quarter should improve from there. We're carefully monitoring market conditions and communicating with our customers on a daily basis to have a better understanding for the remainder of the year.

In my earlier comments, I mentioned the importance of driving cash generation and reducing debt. We see this as critical to meeting our goals as we may act on opportunities with regard to M&A targets. We are developing additional value streams to augment our Vision 2025 Strategy. These actions will leverage the strength and capabilities of the Helios organization, including our well-respected brands, our dedicated global employees, and our strong balance sheet.

We are in the final stages of refining these value streams with the operating businesses and will share them in due course. We believe the enhancement to the strategy will also provide greater clarity on the efforts required to accelerate our growth, specifically through expansion into new end markets and new products as well as acquisitive growth. As we finish our strategic planning activities this fall, we will provide more details on how we expect to execute our growth strategy.

To close, I have been able to visit both Sun Hydraulics and Enovation in-person and engage with Faster via video conferencing during this past quarter. I am confident in the abilities of our operating presidents to lead the businesses through the current economic challenges and drive long-term organic growth.

I believe that we can leverage this solid foundation to become an even stronger Helios organization.

Now let's open up the lines for Q&A, please.

Operator: [Operator Instructions] Our first question comes from the line of Jeff Hammond with KeyBanc Capital Markets.

Jeff Hammond: Sorry, if you covered some of this, I jumped on a little bit late. You talked about some of the past-due backlog getting caught up. Can you just level set us on where backlog is either sequentially or how much it's down year-on-year? Also, can you walk through the order trends of the quarter and into July?

Tricia Fulton: Let's start with the order trends throughout the quarter. We saw quite a big drop in orders in April, and a further drop in May, which was the bottom for us, and we saw a significant pickup in June and further growth in July. We're encouraged by what we saw in the June and July time frame from an order perspective as we go into Q3. With respect to the backlog, we still had past-due backlog in our CVT business at the end of the quarter. We do expect to work through most of that past-due by mid-Q3, so over the next couple of weeks. At that point, we'll be shipping out of current demand for that business.

Jeff Hammond: Okay. Moving to Electronics, certainly a lot weaker than what I had been modeling, and you cited a number of reasons. At the same time, it seems like a lot of leisure end markets are a pleasant surprise

from a demand perspective. Give us a sense of how you see the shape of that business into the second half with some of that solid demand on the leisure side? As you feather in, some of this program changeover and when you start to see that business act a little better as you complete your transition?

Tricia Fulton: You're right, the recreational end markets were hit really hard in April and May because most of their OEMs were shut down during that period. However, the consumer demand has come back really strong in June and July, to the point that some of them are unable to keep up with the demand because of some supply chain constraints that they're seeing caused by COVID. Because of the shutdown, some of their new model rollouts in 2020 have been pushed to 2021, but we are encouraged by the continued demand that they're seeing in the recreational end markets.

Jeff Hammond: Most of your new program wins are around, I guess, the original 2020 new models that now will get pushed?

Tricia Fulton: We had some that got pushed out of 2020 into 2021, but we have not seen any change in the rollout dates of 2021, which are really the more significant rollouts.

Josef Matosevic: In summary, Jeff, there are really no cancellations in terms of the pipeline. The pipeline is full, and there have been numerous discussions for pre-planning purposes and just staying firm that the rollouts will be in 2021. Some may be pushed ahead into Q4, but we'll be monitoring that very closely.

Operator: Our next question comes from the line of Brian Drab with William Blair.

Brian Drab: On those programs in Electronics, can you spend another minute talking about, in any way quantifying where we are with those now and the potential impacts? Next year, how many programs are we talking about? Is there potential for in a more normal macro environment for that segment to really snap back hard in 2021?

Josef Matosevic: As mentioned previously, Brian, the pipeline is really full. If you look across the spectrum of the 25 new NPIs that want to go-to-market into 2021, only 3 are questionable at this point. There is a good level of confidence that what was committed to, and in some cases, funded or prefunded will happen in 2021, with the rollout starting, in some cases, as early as Q4, but certainly, Q1 into 2021.

Brian Drab: Okay. You said, there's 20 to 25 NPIs. What does a typical year look like, considering there are not too many this year, just for frame of reference?

Tricia Fulton: There were definitely less in 2020, and we knew that going into this, and we talked about it on earlier calls that this was a bit of a lull in that production cycle. Certainly, what we see for 2021, 2022 and even into 2023, are very strong product development years in this business. We're starting to roll out some pretty significant programs beginning in 2021.

Brian Drab: Okay. How are you thinking about further cost cuts and potential impact on decrements in the third quarter? What are you expecting decremental to be in the third quarter? I don't know if you can comment on that, since you're not really guiding.

Tricia Fulton: I'm not going to comment specifically on decrements for Q3, but in looking at the full year, we expect the decrements to be somewhere around 40%. We saw some challenges, with Q3 being the trough in the Hydraulics segment from a decremental perspective and certainly, we know from this business that it rebounds very quickly when we come out of it. We believe that we're starting to see the beginning signs of coming out of it. We don't want to significantly change our cost structure, so we're prepared for that, but in anticipation of a lower Q3, we do have some things planned in the CVT business that have been announced to the employees already, including a one-week shutdown in early September and then moving to rolling furlough programs in that business once we work through the past-due orders and are working off actual demand, until we start to see what we expect to be a Q4 pickup in demand.

Operator: Our next question comes from the line of Mig Dobre with Baird.

Mig Dobre: I want to go back to where Jeff started us off here. I've got to be honest with you, I've struggled for a few quarters now to try to understand exactly how all the moving pieces fit into what's been happening

with your backlog. It seems to me like, we're to the point where this is becoming a really important dynamic to really have good perspective on because, it not only informs Q3, but Q4 and progression into '21. My question to you, Tricia, is, as you're looking at Q2, can you tell us where you started the quarter in terms of dollar backlog and where you exited? I'm trying to understand how much backlog contributed to Hydraulics segment revenue, backlog burn or reduction or conversion, however you want to call it.

Tricia Fulton: We don't give backlog numbers, but I'll give you a little bit of color on the backlog; at least the past-due portion of the backlog. We always have backlog in this business, but let's focus on the past-due portion. So if we look at where we ended Q1 from a past-due perspective in the CVT business, we were able to ship about half of that in Q2, and we expect to work through the other half of it in Q3 by mid-August.

Mig Dobre: Well, yes. But if this past due is \$2 million, then essentially, it really didn't impact the quarter all that much. If the past was \$50 million, using an extreme example here, then this would have been a really material impact. Maybe to ask this question differently, if you were to look at your reported organic decline of, call it, 9%, how do you think you fared versus the industry more broadly or maybe even comment on your Americas business? I know you get data from the Fluid Power Association so that you compare your trends to the broader industry. Can you tell us what the delta was?

Tricia Fulton: We've performed better than the NFPA numbers would indicate in the Americas. This past-due is really pent-up demand that we saw and what would have been in a prior period if we were able to ship it. We had very few cancellations, if any, in that business. I think that we're going to be catching up now to where we should be. If you'll recall that the book-to-ship cycle in that business is generally very short, so we're not used to having this level of past-due backlog that we've seen for many quarters. Some of that was a little self-inflicted as we went through the manufacturing consolidation project. Certainly, I think we saw significantly more demand during that time period that we built up this backlog than our competitors did, and that was reflected in our ability to exceed what the NFPA numbers were showing, at least in the North American market.

Josef Matosevic: Mig, I will provide you with an additional data point that may help in answering some of your questions. You mentioned numbers between \$2 million and \$50 million in terms of past-due backlog, it was clearly in the single digits. Our strength in Q2 was certainly not based on 80% or 90% shipping past-due to backlog, so that number was in the single digits. If you look at the order pattern, as Tricia said a few minutes ago, the orders fell off the cliff in April, bottomed out in May, we saw a significant recovery in June, and July was even better than June. That leads us to believe that we need a couple more data points into August in the first half of September to have a firm understanding, and that was the largest driver for us not being comfortable enough to give guidance. There are no hidden skeletons here, there is no 80% past-due backlog shipping. I hope that will answer some of your questions and get you at ease.

Mig Dobre: Josef, when you're saying single digits, am I to understand that single-digit million or that single-digit contribution to growth?

Josef Matosevic: Single-digit millions, Mig.

Mig Dobre: Single-digit millions. Okay. Back to order trends, so May truly marks the bottom in terms of orders, and then you've seen a sequential improvement in June. Can you give us a sense whether or not June was still down year-over-year or was it actually up year-over-year in orders?

Josef Matosevic: Certainly, Mig. The year-over-year number was still down.

Mig Dobre: Okay and we are to understand that as you're looking at July and August and such into Q3, the magnitude of the decline in order intake essentially exceeds the reported revenue decline in Q2?

Josef Matosevic: That is correct, Mig.

Mig Dobre: Okay. I'm sorry for all the questions here. I, for one, I'm a little bit confused as to all the moving pieces here, which is why I'm trying to understand what's going on.

My follow-up here for you, Tricia, as we're thinking about the seasonality of this business and recognizing that this is a very strange year, certainly not normal here, my recollection is that the fourth quarter can sometimes be a seasonal downtick in revenue just based on production schedules and such into December. I'm wondering

how you're thinking about that knowing what you know today. Do you think there is enough end market momentum and some catching up on production to support 4Q or should we think about normal seasonality there?

Tricia Fulton: I don't think that it's going to be a normal seasonality. I know we're not giving guidance, but we're trying to help you guys understand, at least what we're seeing right this minute, when there's clearly still some uncertainty around that. If we look at first and second half, we're at about 50-50, with first half being a little bit better than the second half from a total revenue perspective. Knowing that we have stated that Q3 is our trough that would lend itself to a higher Q4, which is not, as you stated, for us, normal seasonality, but given what we're seeing in the end markets and our expectations for the pickup in demand in the back half of the year and then going into 2021.

Mig Dobre: Got you. So fourth quarter, a little bit better. Okay. Very helpful.

Josef Matosevic: Thanks, Mig.

Operator: Our next question comes from the line of Joe Mondillo with Sidoti.

Joe Mondillo: I think Mig dug pretty deep there, but I was wondering, if I could go maybe one step further. Is there any way you could actually provide the April through July monthly year-over-year order changes? That would give us a pretty good indication of what order decline you're seeing outside of that past-due backlog.

Josef Matosevic: Joe, I think you will understand that we can't get into specific numbers month by month. I was very genuinely summarizing and giving you guys pretty much what you need to have for your models. Once again, the way that data is rolling up now and the orders are coming in, pretty much across the board, is that April really fell off the cliff, May bottomed out, June came back in a vengeance, and July was even stronger. So the data points are clearly pointing to some sort of a recovery. When you speak with the OEM customers and distributors, you get a mixed bag, some of them are pre-ordering, some of them are going really strong, many are just cautious, just due to the uptick in cases here in the U.S. However, we discussed this internally, and I was not comfortable presenting guidance without having a couple more data points. I genuinely mean when I say that we are well-positioned. However, we want to watch it another four to six weeks in order to have a better understanding and a firmer perspective.

Joe Mondillo: Okay. Understood. As far as the gross margins that you saw at the Electronics segment in the second quarter, is there any way you can help us understand how to think about the back half of the year, going into '21? The gross margin was weaker than I was looking for, is there a reason to believe that the gross margins would rebound in the second half or stabilize? Please try to give us any information that you have that point us in the direction of what kind of margins to expect at the very least in the back half for Electronics?

Josef Matosevic: Certainly, Joe. I will start and then hand over to Tricia for some numbers. The answer to your question is, yes, we will protect profitability and gross margin. We have made the decision to hold on to certain layers in the organization due to the fact of the strong Enovation pipeline we've seen and that also dovetails into the four additional value streams that I outlined in my prepared remarks. One of them being the organic growth piece that will drive additional business and diversify our market position. Therefore, we needed to hold on to a certain portion of engineering and Enovation folks to get us ready to launch that. Overall, the answer to your question is will we protect profitability? Yes, we will.

Tricia Fulton: Just to add a little bit more color, Joe, Q2 was the trough for the Electronics segment, and we took a pretty hard hit in the first couple months of that quarter. To Josef's point, we expect to see top line increase, and we will be able to protect that profitability and go back to the higher gross margins. Now, keep in mind that Q1 does have the impact of the contractual obligations in it from the one-time buys. So that will not be a repeatable event, but we will definitely expect to see margins go back up in this segment as we roll through and are able to increase the top line revenue off of where we were in Q2.

Joe Mondillo: Okay. And Tricia, your comments on the decrements of 40%, was that for the overall company in general going forward?

Tricia Fulton: That was for the overall company for the year.

Joe Mondillo: Okay. Last question in regard to how you're managing your cost structure through all of this and given the moving pieces and the past-due backlog, that's held up your production, at least through the second quarter, where are you with managing the cost structure? You mentioned furloughs and a one-week break in September at CVT. Are there other things that you're doing or where are we with the cost structure? Is there any costs coming back in the third quarter? It doesn't sound like it would be, but could you just help us understand what you're doing on the cost side?

Josef Matosevic: Certainly. Across all three business units, we have been conducting very detailed planning cycles and discussions. One of the strength of Helios truly is planning the cycle, being resilient and understanding what levers we need to pull, if volume is down. Plans have been on the shelves. In fact, we have modeled three different scenarios, including 10% down, 15% down and 25% down. As we see top line change, we are able to flex costs accordingly in terms of furloughs, in terms of reducing hours in the factories, and watching our spend very closely. Travel, by nature, has fallen off due to the situation. In summary, Joe, there have been good plans on the shelf for the three scenarios that I've outlined, so we are prepared to do whatever it takes to protect our profitability and matter of fact, we will protect our profitability.

Operator: [Operator Instructions] Our next question comes from the line of Nathan Jones with Stifel.

Adam Farley: This is Adam Farley on for Nathan. I wanted to talk about the regional sales dynamics. The Americas declined the most, followed by EMEA, and APAC actually showed growth. I think you mentioned share gains there. First part of that is, do you believe there's any pent-up demand in the APAC region? Do you believe these levels of revenue are sustainable going forward?

Tricia Fulton: I don't think there's any pent-up demand in APAC. I think the demand coming out of COVID has been strong and has gone back to pre-COVID levels. In some cases, we expect to exceed our original budgets in parts of that region. I don't think it's pent up, I think its actual demand coming out of APAC.

Adam Farley: Okay. What do you think it would take for EMEA and Americas to follow the pattern in APAC? Again, I know there's a lot of share gains in China, specifically, but as the economy is growing forward and roll up, do you think you'll see gradual improvement regionally?

Tricia Fulton: Q2 was clearly hard hit on the Electronics segment because about 85% plus of that business is in the Americas, so that was overall driving that down a bit. I think what we're seeing out of CVT on the distributor side, in the Americas specifically, is taking a step back to make sure that they understand where we are with our inventories in this cycle, where we are with our OEM demand, and we believe that coming out of this, we'll have a stronger Q4 as a result of that. We started to see a little bit of that lull in Q2 in the Americas on the CVT side and then the Electronics was just a reaction to the shutdown from COVID.

Adam Farley: Okay. Then shifting over to end markets, I guess you highlighted a pretty resilient Ag market. What's driving that relative strength and some more color on which end markets are doing better and which are doing worse on a relative basis?

Tricia Fulton: Ag was very strong coming out of 2019, and we expected to have that continue throughout the year. We saw a little bit of a lull clearly when we had all the shutdowns in Europe and the Ag markets there. As we've come back out of it, we've seen that same pickup that we started to see in Q1. We believe that some of our OEMs are actually going to be better than we anticipated for the year. So clearly, we're happy to see that, that market has continued to grow as we've gotten through a lot of the COVID shutdowns.

Adam Farley: Okay. Then any other end market strength or weakness? I know oil and gas is weak.

Tricia Fulton: We've been happy with what we've seen on the recreational side from an end market perspective. Even though it was hard hit, it's coming back pretty nicely. Clearly, demand in China for us has been strong, and that's primarily on the industrial application side, in wind power. Those are really the most two resilient. We're starting to see some pickup also in the Americas on the construction side with some of the customers, but we're seeing mixed signs globally on the construction piece.

Operator: If there are no further questions left in the queue, I would like to turn the call over back to Josef Matosevic for any closing remarks.

Josef Matosevic: Thank you for your participation this morning and your interest in Helios Technologies. Also, I would like to extend a very genuine thank you to all of our hard-working Helios employees who are driving these results. We look forward to updating all of you on our third quarter in November. Have a great day, and stay healthy and safe.

Operator: This concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation, and have a wonderful day.