Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies First 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 slides there that will accompany our conversation today.

On the line with me are Josef Matosevic, our President and Chief Executive Officer, and Sean Bagan, our Chief Financial Officer. They will review our first quarter results along with our outlook for 2024. 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 as well as our upcoming 10-Q to be filed with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I'll also point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP with Non-GAAP measures in the tables that accompany today's slides. Please reference **Slides 3 and 4** now.

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

Josef Matosevic, President and Chief Executive Officer

Tania, thank you, and welcome everyone.

We had a solid start to the year and our results validate our commitment and ability to deliver to plan. Our Helios team continues to demonstrate their dedication to keeping our promises and meeting our responsibilities to customers. Thank you to the global team for a great quarter out of the gate!

I am encouraged with the improvement over the fourth quarter, with demand stepping up in all regions. We just completed a trip to Asia and not only are we starting to see green shoots in our results there, but we see long-term opportunity for real growth. While global geopolitical and macroeconomic conditions remain somewhat in limbo, there are clearly pockets of strength regionally and by end market.

The higher volume, financial discipline, and the structured actions we took to protect the business delivered strong sequential improvement. We saw this in our margins which we expect will continue to expand as we keep executing our plan.

Importantly, we are comfortable with affirming our previous guidance for 2024.

Behind the scenes, we continue to make great headway as a newly integrated operating company. We have in hand a couple of new sub systems wins and have officially entered the commercial food service space…and we have only just begun. We expect this market to become meaningful for us over the next several years. Importantly, we have created innovative, sticky solutions that add value in every application. Our innovations can provide better end user control, remote access, and greater durability with lower power consumption enhancing total cost of ownership. We continue to advance several other opportunities, as we leverage our unique position at the intersection of hydraulics and electronics. In fact, all the opportunities we previously described are still in play and we continue to work closely with our customers to identify new ones. As we have brought the various pieces together, through flywheel acquisitions and internal innovation, our system solution offerings are really starting to resonate with our customers. This has been repeatedly validated through direct feedback received from our recent customer visits. Many of our distributors are making significant expansions to their own capacity gearing up to grow with us. They understand the strategic value and opportunity in participating in sub system sales with Helios and are already selling several examples in the market today.

Just as exciting, we also announced that we have partnered with WaterGuru. As you know, having clean and balanced water is a critical factor for any water-based application. We are bringing to market an industry leading water sensing and automated treating solution for the spa, plunge pool, and cold plunge markets. This is a truly unique collaboration where we are exclusively licensing and integrating their patented technology for the worldwide Spa OEM market. This is another example of how Helios is a leader in driving innovation for the markets we serve. Additionally, this will provide another recurring revenue opportunity for our business model. You will hear more about this as the year progresses.

Finally, as a part of our integration progress, we are improving our financial forecasting and instilling stronger financial processes and discipline across all the organizations. All our operating companies are more tied into our strategy than ever before. I will now turn the call over to Sean to discuss the progress we saw this quarter through our results.

Sean, please.

Sean Bagan, Chief Financial Officer

Thank you, Josef and hello, everyone.

I will start to review first quarter results talking to **Slides 5 through 11**. As we enter a new year, we took the opportunity to redesign our earnings presentation. We streamlined some repetitive data out between these slides and the press release. In addition, we have incorporated new insights on our operational performance and the markets we serve.

Moving to the first quarter results, sales came in at $212 million, above our expectations due to stronger demand and order fulfillment at our Balboa business. This drove the increase in Electronics revenue, both year over year and sequentially. Compared with the fourth quarter, Hydraulics came off a low base as the mobile market and the APAC region really began to turn positive. We expect that normalization of inventories, order patterns, and demand will provide moderate support through the year from these categories. In addition, our new Hydraulic Manifold Solutions Center of Excellence, located in Mishawaka, Indiana, is continuing to ramp up.

Geographically, we were up in all regions quarter over quarter. Compared with last year, we had improvements in the Americas and APAC of 1% and 5%, respectively. There was a 7% decline in EMEA reflecting the slowing of the broader agricultural market as well as other geopolitical impacts continues to negatively impact the region.

On a year over year basis, health & wellness is performing strong. We expect the Spring season to remain solid while the latter half of the year will likely level off, more so from a seasonality perspective. Marine, agriculture, and recreational vehicle markets are in various stages of their own cycles and for now have moderated at a lower level compared with the last few years.

The improvement in volume helped drive gross profit up 22%. Gross margin expanded 310 basis points compared with last year's fourth quarter, with further room for improvement as the year progresses. Gross profit declined $3.8 million and gross margin contracted 160 basis points year over year to 31.7%.

As a reminder, our health and wellness business has a lower average gross margin profile that is offset with lower SEA expenses which in a normalized capacity utilization structure gets to a very similar operating margin as the rest of our Electronics segment. As it is ramping back to full capacity, to the degree that it outperforms our plan, we can have a short-term mix impact. Of course, we have focused actions we are taking to continue to improve productivity, rationalize costs and deliver higher margin profile solutions which will also continue elevating those margins.

Non-GAAP adjusted operating margin of 14.5% in the quarter is nearly 200 basis points above our low in the trailing quarter. Our facilities are positioned to realize further operating leverage inherent in the business as our volumes continue to grow, along with disciplined pacing of investments and expenses. We were encouraged by the improvements delivered in the first quarter, but acknowledge we are not yet optimized and still have work to do to get back to historical financial returns.

We have added in both Cost of Goods Sold and operating expenses reflecting our investments to expand our capabilities and capacity. We expect these investments to yield expanded volume and to grow into higher margin business, enabling us to revisit historical return levels.

Year over year, adjusted EBITDA in the quarter of $38.6 million, or 18.2% of sales, contracted 210 basis points for all the reasons I have discussed. Encouragingly and despite the unfavorable segment sales mix, the sequential improvement of 150 basis points reflects the impact of our focused efforts to deliver profitable sales growth and disciplined spending.

Our effective tax rate in the first quarter was 23.2%. This is driven by the regional mix of different tax jurisdictions and the impact of discrete items.

Diluted Non-GAAP EPS of $0.53 in the quarter reflects the impacts I've mentioned. It also includes a four-cent impact from increased interest expense from higher interest rates and average debt balances compared with last year.

Briefly by segment, on **Slide 9**, you will find the first quarter review of our Hydraulics segment. Sales were up 7%, over the trailing period with improvements very broad based across nearly all markets. Sales were down 4% over the prior year across several end markets, against more challenging comparables, despite the benefit of $1.9 million in acquired revenue.

We had a $0.2 million unfavorable foreign exchange impact to the segment compared to the prior year period. Sequentially, Hydraulics sales improved a relatively healthy $8.7 million.

Sequentially, gross profit increased $3.3 million, or 8%, and gross margin expanded 50 basis points reflecting the growing volume. Gross profit declined $5.5 million year over year resulting in gross margin contraction of 260 basis points primarily due to fixed cost absorption on lower volume and higher labor costs.

SEA expenses grew $0.9 million or 2% compared with the prior year period. Our cost containment measures helped to offset the run-rate impacts of acquisitions with labor and operating costs while maintaining our investments in R&D.

Please turn to **Slide 10** and we'll discuss the Electronics segment. Given its U.S. sales concentration, foreign currency has nominal effects for this segment currently.

Year over year, electronics sales improved by $4.1 million, or 6%, including $2.0 million in revenue from acquisitions. Double digit growth in health and wellness along with positive contribution from off-road vehicles, partially offset by the continued weakness in the marine and industrial end markets. Sequentially, the electronics segment expanded $9.9 million, or 17%, driven by double digit growth in health and wellness and modestly improving conditions in the industrial markets.

Higher volume led to a $1.7 million increase in gross profit year over year, or 8%, resulting in gross margin of 32.6% up 50 basis points. Sequentially, Electronics gross profit were up $8.6 million, or 61%, and gross margin expanded 900 basis points.

The sequential revenue and gross profit growth drove solid operating leverage in the segment. Compared with the fourth quarter of 2023, operating income grew $6.1 million or 610% and margin expanded 850 basis points. This is where the incrementals start to really show through in our business model as the volume returns.

SEA expenses were up 16% compared with last year and up 19% compared with the trailing fourth quarter. We did not close the Schultes acquisition until the end of January last year and the i3PD acquisition until the end of May, so the year ago period did not have either of those fully loaded into the compare.

Please turn to **Slide 11** for a review of our cash flow. This quarter demonstrated our financial priority to shorten our cash conversion cycle. We generated cash from operations of $17.8 million, up from $12.3 million in the first quarter of last year. The first quarter is historically our weakest for cash generation, so this level coming out of the gate is encouraging, but also leaves room for further improvement. We had free cash flow of $12.3 million in the quarter measurably improved over the prior year first quarter of $3.2 million. This was also our first sequential quarterly inventory decline over the past seven quarters. We are executing on our inventory reduction plan and expect our more optimized inventory management processes to be a meaningful contributor to our improved cash conversion cycle as we step through the balance of the year. Capital expenditures for the quarter of $5.5 million, or 2.6% of sales, were primarily focused on maintenance capex, tooling, and the expansion at Faster in Italy.

Turning to **Slide 12**… At the end of the first quarter, cash and cash equivalents were $37.3 million, and we had $197 million available on our revolving lines of credit providing us ample liquidity. Total debt was down modestly from the end of 2023 and has shown steady declines over the last three quarters.

At quarter end, our net debt to adjusted EBITDA leverage ratio was 3.08x. With our targeted ratio between 2.0 to 3.0 times; we think at the mid-point of our guidance we would be close to 2.5 times ending 2024. Ultimately, as we get closer to the lower end of our target range, we have the ability to flex up for acquisitions and other investments.

Turning to **Slides 13 to 14**, we are affirming our outlook for 2024. We are presenting the key metrics here and you can find the other modeling items in the supplemental slides, with no changes to our 2024 fiscal years estimates from what was communicated with our February 2024 press release and earnings materials. As shown, Sales are expected to be in the range of $840 to $860 million, adjusted EBITDA in the range of 19.5% to 21%, and diluted non-GAPP earnings per share in the range of $2.35 to $2.75. Given our solid sequential results in the first quarter, paired with further sequential bottom-line improvements anticipated for the balance of the fiscal year, we are confident in affirming our full year guidance for 2024.

As we did for the first quarter, we would like to establish our second quarter estimates for sales in the range of $213 to $218 million and adjusted EBITDA margin range of 19.0% to 20.5%. Current demand and order levels support further sequential sales improvements. This incremental expected sequential volume, coupled with operational improvements and disciplined cost management, support further profitability rate expansion.

As we signaled earlier in the year, we continue to expect the first half of 2024 to be tougher on a year-over-year comparable basis.

Slide 14 is a new slide intended to provide some understanding of where we see our market and operational drivers by segment.

Looking to **Slide 15**, I want to remind you of our financial priorities for 2024. As I have said before, this year is all about execution and driving consistent and predictable performance. We are strengthening the underlying financial discipline and structure of Helios. We expect the resulting cash generation and profitability will provide improving returns on our investments.

So let me turn it back to Josef for some closing remarks.

Josef Matosevic, President and Chief Executive Officer

Thank you much, Sean. As we committed, 2024 is the year of executing and elevating as we leverage the strong foundation we built and start seeing the returns on our invested capital grow. The traction we are gaining on our financial priorities is already showing positive improvements in our results.

We will maintain our strong focus on collaborating with our customers, suppliers, and employees ensuring we have an aligned strategy. When we started this journey several years ago, we completed perception and other surveys with our customers, investors and with our people as we augmented our strategy. We continue to value and incorporate the voice of the business in all that we do.

In fact, it was the feedback from our customers that gave us the conviction to make the investments across innovation, acquisitions, and regional capacity which has now primed us for growth as the markets recover. With a good deal of integration work completed and having our regional structure and product cost improvements in place, we expect to get back to our normalized gross margin levels over time. As many of you know, the way our model is structured, as our volume grows the incrementals show up.

We have been redefining Helios and securing our place as a global leader in the industrial landscape that can deliver top-tier margins and cash flow. Our strong foundation coupled with the methodical investments sets us up for continued growth and profitability for years to come.

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.