Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies Third 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 is Sean Bagan, Interim President, Chief Executive Officer, and Chief Financial Officer. Sean will review our third quarter results along with our outlook for the remainder of 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 Sean.

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

Thanks, Tania and welcome everyone. We appreciate you joining us today. I would like to start the call with a heartfelt thank you to our suppliers, customers, business partners and importantly the global Helios team as we made advancements in the business during a challenging period for the organization.

We delivered a solid quarter and made further improvements to our financial profile. We hit sales within our guidance range for the quarter while contending with contracted markets. We generated nearly $35 million in cash and reduced debt by over $19 million. Our strong cash generated from operations is up almost three-fold as we continue to unlock working capital. These results validate the progress we are making with enhanced discipline around costs, capturing efficiencies, managing inventory, and honing our capital priorities. We also had meaningful margin improvement on lower sales reflecting the team's effort to align costs with current conditions, reduce input costs, drive manufacturing productivity, and realize the expected cost adjustments primarily from the officer transition. We utilized our excess cash to reduce debt for the fifth consecutive quarter and have brought down our net debt to adjusted EBITDA leverage ratio to 2.8 times.

Over the course of a two-month period, we faced three hurricanes here in Florida, two within two weeks of each other, including a direct hit to Sarasota by Category 3 Hurricane Milton. We can count our blessings because every member of the Helios and Sun Hydraulics teams made it through without injury. Operations were shut down for 18 cumulative shifts throughout these storms. One of our three manufacturing facilities in Sarasota requires some additional repair before it is 100% operational. All things considered we pulled through relatively well. Additionally, many of our people had to deal with the destruction the hurricanes caused to their homes and families. Our global Helios team stepped up wholeheartedly and contributed much needed supplies and support for us and our community. Their physical and emotional support touched everyone here and we cannot thank them enough. It is a testament to the incredible people that we have in our organization and the shared values that we all live by every day.

While I am encouraged by the progress the team is making to improve the underlying fundamentals of the business, given extended weakness in key end markets combined with the operational impacts of the storms, we are updating our guidance for the remainder of the year.

I'll turn now to discuss our results for the quarter in further detail on **Slides 5 through 8**.

Sales were $195 million, near the midpoint of our quarterly guidance and down 3% compared with last year. Strong sales in health and wellness over the year ago period partially offset the continued weakness in the agriculture, industrial and recreational markets. The third quarter contains our typical patterns which generally tend to be lighter than our second quarter, especially in Europe with the summer holiday shutdowns and maintenance work. The extended market weakness that we are seeing are reflected in the declines in both Hydraulics and Electronics sales year-over-year.

By region, sales in APAC were the relative bright spot, as there were declines in EMEA and the Americas when comparing with last year. During this time, we remain focused on bringing our best effort to customers with respect to quality, service levels, and responsiveness. We are reducing our lead times, continuing to invest in product innovation, and staying very close to our customers. Our Sun Hydraulics past due backlog is at a 12-month low as we have stabilized from the post-Daman acquisition integration period, particularly as it relates to supply bottlenecks created from our manifolds Center of Excellence. The team is actively accelerating delivery dates and driving order commitment improvements.

Our gross margin expanded 150 basis points over last year despite $7 million in lower sales and the mix weighting of our Balboa business. Concerted efforts to reduce overhead costs as well as lower material costs have benefited gross profit. We believe we will continue to make progress toward our goal of returning to the mid-to-high 30 percent range for gross margin over time from a combination of enhanced cost controls, productivity improvements, and most importantly, growing volume. This includes the optimization of our manufacturing operations. For example, we have had line transitions from Tulsa to Tijuana, stood up our two Hydraulics Centers of Excellence in the Americas last year, and we are aligning manufacturing processes regionally in EMEA and APAC for improved efficiencies.

Operating margin of 11.4% was up 450 basis points from last year. Non-GAAP adjusted operating margin of 16.6% was up 290 basis points from last year We have steadily improved operating margin through the year even on depressed sales from challenging end market conditions. Adjusted EBITDA margin expanded 320 basis points over the prior year period. These favorable variances reflect the gross margin improvement, cost control measures, and the previously mentioned expected cost adjustment.

Our effective tax rate in the third quarter was 14% and was primarily due to an overall increase in discrete tax benefits driven by the officer transition in July 2024. We now expect our effective tax rate for the full year of 2024 to be in the range of 20 to 21 percent.

Diluted EPS was $0.34 in the quarter, up 209% over last year. Diluted Non-GAAP EPS was $0.59 in the quarter, up 34% over last year.

Starting on **Slide 9**, I'll give more color by segment. Hydraulics sales declined 2% over the prior year period with gross profit dollars flat. The 2% sales decline was driven by declines in agriculture partially offset by growth in the industrial and mobile end markets. Foreign exchange had a $600 thousand favorable impact on segment sales. Power and Motion recently published statistics from the National Fluid Power Association reflecting the continued industry decline in total fluid power shipments of 14.9% in August 2024 compared to the previous year, as shown in our supplemental slides. We also just received the September data, and it reflects a 13.9% annual decline. The Ag Economy Barometer published by Purdue University along with the AEM Ag Tractor and Combine Report continue to reflect the U.S. agriculture market remains in decline. We are seeing these trends reflected in our hydraulics sales.

We have maintained investments in new products and will continue to protect this investment as it's the lifeblood of Helios. This quarter, Sun Hydraulics announced a high capacity, electro-proportional flow control valve solution. The FPJP valve takes full advantage of Sun's XMD Series valve driver co-developed in partnership with Helios operating company Enovation Controls, demonstrating the power of our integrated strategy. Sun also commercialized ENERGEN in the quarter, and we have multiple pilot customers currently working to bring this into production. In addition, the Hydraulics team has a handful of new product launches planned before year-end, with a robust product pipeline that will continue to expand.

Gross profit was relatively unchanged year over year while gross margin expanded 50 basis points on lower overhead. Operating income grew 32% driven by targeted costs controls in the current demand environment along with previously mentioned allocation of expected cost adjustments. Run rate SEA expenses declined over last year displaying our work to adjust to changing market conditions and customer order timings.

Turning to **Slide 10** I'll now discuss the Electronics segment.

Year over year, Electronics sales declined 6%. Continued strength in health and wellness partially offset declines in recreational, industrial, and mobile markets. In the quarter, Balboa launched a new, compact Clim8zone II heat pump, along with new touchpads and advanced controllers which have been integrated into several customer's cold plunge products. We also released a new SpaTouch4 display with upgraded software and light controllers that have been adopted by several spa OEMs. We also continue to invest in new display and control platforms from Enovation Controls with electronics sub-system solution launches planned in Q4 and early 2025. We are encouraged by the early customer reception of recent display product launches cutting across multiple industries, including the 12 and 15-inch Ultimate Series, the 7-inch Pros series, and a 10.25 inch custom display in the recreational space.

Electronics gross profit was up $1.0 million, while gross margin expanded 330 basis points over last year reflecting the concerted focus on operational efficiencies and facility footprint optimizations. Operating Income grew 62% from the gross profit benefits along with previously mentioned allocation of expected cost adjustments. Run rate SEA expenses in this segment also declined over last year displaying our work to adjust to changing market conditions and customer order timings.

Slide 11 clearly presents how effective our cash management efforts have been with a free cash flow conversion rate of 244%. We generated cash from operations of $34.8 million in the quarter up nearly three times over the third quarter of last year. We continued to reduce inventory which is now down 7% since the end of last year. This is a meaningful part of our efforts to improve our liquidity profile as we finish out 2024. Capital expenditures in the quarter were $6.0 million, or 3.0% of sales. Spending is focused on strategic investments in operational improvement and productivity including machines, tooling, and footprint optimization. Based on the investments we have made over the last couple years our capital expenditure needs will be driven primarily by maintenance and opportunistic investments for the foreseeable future.

Turning to **Slide 12**…At the end of the third quarter, cash and cash equivalents were $47 million, and we had $325 million available on our expanded revolver. Despite year-to-date sales contraction, total debt was down 8%, or $41 million, from the end of fiscal year 2023 and has shown steady declines over the last five quarters, bringing our net debt to adjusted EBITDA leverage ratio down to 2.8x.

We have a solid balance sheet and the financial flexibility to continue to pay down debt and invest organically in innovation and productivity. Importantly, our strong cash generating capabilities support our over 27-years of consistent dividend payments, or one hundred and eleven consecutive quarters.

Turning to **Slide 13**, as I mentioned earlier, we are adjusting our full year outlook to reflect the weakened end markets combined with impact from the storms. As referenced in the beginning, the cumulative impact of 18 lost manufacturing shifts equates to approximately $10 million in revenue. In addition, we estimate approximately $3 million in recovery expenses. The remaining reduction in revenue is due to markets in EMEA and the Americas continuing to decline with customers pushing out delivery dates as well as a weakened order book.

We are adjusting our full year sales range to $800 to $805 million. This implies revenue for 2024 down approximately 4% at the mid-point compared with 2023. We expect our adjusted EBTIDA margin to be in the range of 19.0% to 19.6% and adjusted diluted non-GAAP earnings per share to be in the range of $2.10 to $2.20.

Even with this updated outlook, we still expect to pay down debt in the fourth quarter while reducing our net debt to adjusted EBITDA leverage ratio further by the end of the year.

You can find the other modeling line items in the supplemental slides.

Slide 14 provides some additional understanding of where we see our market and operational drivers by segment along with updated full year sales projections.

Turning to **Slide 15**, I believe our results this quarter and year to date show that we are making progress against our financial priorities. We have been demonstrating our ability to elevate the business even with the tough backdrop of weakening end markets and managing through multiple hurricanes.

This is our third quarter in a row that we have expanded our operating margins. The changes we have made are yielding positive outcomes.

This is the fourth quarter in a row that we have delivered on the forward quarter financial outlook that we have provided. While we acknowledge we have had to make full year adjustments and there is room for us to keep improving our forecasting abilities – this highlights the short cycle order patterns and lead times we have across our businesses.

For five quarters in a row, we have been able to reduce our debt balance and improve our leverage ratio, further strengthening our balance sheet.

Throughout 2024 we have "kept our foot on the gas" from a product development perspective and continued to innovate and bring products to market. We are poised to capitalize on growth as and when markets turn. Our underlying business is more diversified than it has been historically, and this combined with the benefits of our focused efforts on continuous improvement will become more apparent in our results as market conditions improve.

As we approach the end of 2024 and commence planning for 2025, we are starting to form our views of the year ahead. We are cautiously optimistic that our end markets will start to exit their cycle troughs as they lap softer comps, especially come the back half of 2025. We plan to provide our modeling expectations when we report our fourth quarter results. Global GDP is forecasted for growth in 2025, Interest rates are expected to come down further, industry data is pointing towards end market recoveries to begin at staggered timings in 2025, and our preliminary internal plans considering current customer demand forecasts are reflecting annual growth. Based on the investments we have made over the last several years, combined with our ability to continue to strengthen our financial profile, I could not be more excited about the prospect of shifting gears into growth mode by capitalizing on the opportunities that lie before us.

In closing, I want to once again thank our global Helios team who has demonstrated that through adversity we can continue to unite. The resilience, dedication, and energy are undeniable across the Helios team. It is driven by a connectedness and engagement that is more powerful than it has ever been during my first 15 months with the Company. There are no bounds to our potential as we continue to transform the business.

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.