Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies First Quarter 2025 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. While the search process for a new CFO is ongoing, please welcome back our Vice President, Corporate Controller, Jeremy Evans as well. Sean will start the call with highlights from the first quarter then hand it over to Jeremy to review our first quarter financial results in detail. Sean will then conclude our prepared remarks with our latest thoughts on our 2025 outlook, our current thinking on potential tariff impacts on our business, financial and operational 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 can be found in our Annual Report on Form 10-K for 2024 and will be provided as well in 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.

Since being appointed permanent CEO in the first quarter, I have nearly completed my listening tour with the Helios team to get deeper internal insights and have also engaged with our business partners, customers, and shareholders to get the outside-in external impressions of Helios. With that feedback, we have already begun to refocus the organization. The changes and decisions being made are centered on our customers with the objective of driving business success to create prosperity for our customers, employees, and investors. The ultimate sign of success is organizational longevity, while generating superior shareholder returns over the long-term. I see an amazingly bright future for Helios leveraging all our assets.

As I look back on the first quarter, we fortified the management team and are reallocating resources toward growing our go-to-market initiatives. We continue to evaluate our facility footprint, operating structure and portfolio of companies. We believe we are in a solid position by building in optionality to our plans that respond quickly to the ever-evolving macro environment. As we'll discuss further, our response to the tariff landscape highlights how our size enables us to remain nimble and act decisively — both to mitigate the impact on our business and to capitalize on emerging opportunities because of the shifting tariff backdrop.

We remain concerned about the downstream effects of a prolonged tariff escalation, particularly rising costs, pricing pressures, and potential impact on end market demand. We are committed to making long-term, strategic decisions as we navigate near-term volatility. We had a better start to 2025 than expected as we overdrove our first quarter estimates. Sales of $195 million exceeded the top end of our guidance range but remains below prior year sales levels on continued end market weakness. That said, our early wins from our go-to-market focus are promising and we'll share more during the call. The additional first quarter sales volume resulted in better-than-expected adjusted EBTIDA dollars while delivering a margin rate of 17.3% showing the expected incremental flow through. We generated $19 million in cash from operations, a 7% increase over last year's first quarter, despite the sales contraction. The actions taken by the team to improve our working capital efficiency over the last year are showing in our results, including an 11% inventory reduction as compared to the prior year. We managed our cost of goods sold to align with the lower sales and realized savings in SEA expenses year-over-year. We are being judicious with all our spending, including capital expenditure outflow, which will be used for only the most impactful projects with quick payback periods.

Additionally, we improved our financial profile further by paying down $4 million in debt throughout the first quarter, down 15% over last year, and have now consistently reduced our debt for seven consecutive quarters. We have a stronger balance sheet, a stronger cash engine and nearly $400 million in liquidity. This provides a firm footing for us to operate from.

As is materializing, we expected our first half year-over-year comparables would be challenging, though we are pleased with the progress made against our plans to start the year. While the majority of our end markets remain persistently weak, we are starting to see some positive trends forming in the order intake over the last several months. In our largest business, Sun Hydraulics, distributors' orders are typically lumpy, but we did see their inventories continue to decline in the first quarter, which is a healthy sign. We do estimate there was a small amount of advanced purchasing from distributors at the end of the quarter in response to tariffs, though not material.

Looking at our end markets, as I noted we continue to see persistent weakness in most of them. However, our Health & Wellness and Recreational end market sales did experience growth over the year ago period. It was good to see our Electronics segment stabilize, however given the recent consumer sentiment readings and that the forecasted interest rates cuts have not materialized, we remain cautious.

For our Industrial, Mobile and Agriculture markets, improving manufacturing PMI data earlier in the year had been encouraging although it remains inconsistent and not showing definitive positive trends yet.

We are gradually gaining traction with our invigorated, customer centric, go-to-market initiatives. Our more targeted sales focus is resulting in growing our sales funnels and we are starting to get some new business wins across the finish line. We have had two recent wins leveraging our acquisition of NEM and their leading parts-in-body hydraulics technology. Both wins are in the construction end market with major OEM's. We also had a new win in our Sun Hydraulics business in the aerial work platform end market with a global OEM. Our teams at Daman and Sun are also making headway on their "win back" strategy stemming from the backlog issues that we created when we were building out and integrating our Manifold Center of Excellence in Indiana over a year and a half ago. Our win rate on Daman custom manifold quotes is improving with the ability to expedite quick-turn prototype manifolds within three weeks, which is a great benefit for our customers. We've been driving active customer outreach to highlight our improved manifold and integrated package lead times, delivery, and quick turn prototypes. Significant progress has been achieved with notable successes from these efforts year to date. On the Electronics side, the Enovation Controls team celebrated their 15-year partnership with IDEX Fire & Safety. This is a great example of selling system solutions and evolving with our customers' needs over time. Enovation also had new business wins selling recently introduced displays including the S35 and the P70 into the Recreational, Off Road, and Commercial Vehicle markets. Also, within the Electronics segment, Balboa had first quarter new business wins in the bath space and cold plunge markets.

We have also recently announced several new product launches, reflecting our accelerated pace of bringing new innovations to market driven by customer feedback. By deepening customer relationships and advancing our product portfolio, we believe we are well positioned to navigate near-term volatility and capitalize on opportunities as market conditions improve.

With that, let me turn the call over to Jeremy to cover the details of our first quarter financial results and then I will come back to discuss how we are addressing the tariffs and our outlook during this highly unsettled macro environment.

Jeremy Evans, Vice President, Corporate Controller

Thanks, Sean. And good morning, everyone. As I review our first quarter results, please reference **Slides 5 through 8**.

Sales in the quarter were $195 million exceeding the top end of our guidance range which was $190 million. We estimate the impact of customers pulling orders ahead as a result of announced tariffs to be approximately $2 to $3 million. Please also note, that foreign exchange unfavorably impacted sales by $2.3 million dollars compared to the year ago period, as we had forecasted.

Sales declined in all regions compared with last year. One green shoot to highlight was our Asia Pacific sales in our Electronics segment which were up 24% year-over-year, as the Health &

Wellness end market has returned to growth. While year-over-year sales comparables are still negative, the profitability flow through on our sequential sales step-up validates the leverage we can quickly see in our model with volume growth.

For the quarter, gross margin contracted 110 basis points over last year. The decline in labor and overhead costs partially offset lower volume and higher material costs primarily as a reflection of the higher mix of Electronics sales. Sequentially, gross margin expanded 50 basis points on higher volume in both segments. We continued to prioritize operational efficiency and believe our focus on safety, quality, delivery, and cost will continue to come through with improved margin rates as markets stabilize and volume returns.

Operating income in the first quarter was down just $3.3 million, as $7.3 million reduction of gross profit on lower volume was somewhat offset by a $4.4 million reduction in SEA expenses. Operating margin declined 90 basis points to 8.7%. On an adjusted basis, operating margin was 13.4% down 110 basis points and Adjusted EBITDA margin declined 90 basis points, compared to the prior year period.

Our effective tax rate in the first quarter was 23.5% reflecting the income mix in the various tax jurisdictions.

Diluted EPS was $0.22 in the quarter, down 21% over last year primarily as a result of the lost leverage from the 8% decline in sales. Diluted Non-GAAP EPS was $0.44 in the quarter, down 17% over last year but importantly up 33% over the fourth quarter.

Starting on **Slide 9**, I'll give more color by segment. Hydraulics sales declined 11% over the prior year period. This decline reflected weakness in Agriculture, Mobile and Industrial end markets.

Foreign exchange had an unfavorable $2.2 million dollar impact on the segment compared with the prior year period.

Hydraulics gross profit and gross margin contracted year over year, 16% and 170 basis points respectively, reflecting lost leverage on lower volume. Material and variable costs declined year over year and were relatively flat as a percentage of sales, aligning with the lower demand environment. SEA expenses were down 12% compared with the prior year period demonstrating cost savings realized. Operating income was down $4.4 million reflecting the contraction in sales, partially offset by the SEA savings.

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

Year over year, Electronics sales remained relatively unchanged. Higher sales in Health & Wellness and Recreational helped counter ongoing declines in Industrial and Mobile end markets compared with the same period last year.

Electronics gross profit declined slightly while gross margin held steady, reflecting holding costs in line with volume. SEA expenses were down 7% year over year due to realized cost savings. Operating income improved by 13% and margin expanded 140 basis points, attributable to quantifiable decreases in SEA costs.

Slide 11 shows our heavy focus on cash management continues to pay off with a trailing twelve month free cash flow conversion rate of 258%. We generated cash from operations of $19.0 million in the quarter, a 7% improvement over the first quarter last year despite lower sales. This included a $4.8 million insurance reimbursement related to the 2023 fire and weather-related incidents at Faster. We used part of that cash to reduce debt further and strengthen our financial flexibility. The first quarter has historically been the lightest quarter of the year from a cash generation perspective and optimizing cash flow will remain a focus for 2025.

We reduced inventory in in the last twelve months by $24 million, or 11%, which contributed to lower working capital and growing cash. Capital expenditures in the quarter were $6.1 million, or 3% of sales. Our capital expenditure plans for 2025 will be prioritized with a focus on maintenance and productivity enhancements that demonstrate evident returns on investment.

Turning to **Slide 12**, at the end of the first quarter, cash and cash equivalents were $46 million, and we had $353 million available on our revolving credit facility. Despite sales softening and unfavorable foreign exchange impact on our euro denominated debt, we paid down debt for the seventh consecutive quarter. We have reduced debt by 15%, or $76 million over the last 12 months. Our net debt to adjusted EBITDA leverage ratio is down to 2.7 times, from 3.1 times a year ago.

Our capital priorities remain focused on further reducing debt, generating organic growth and paying our long-standing dividend - as we have consistently done for over 28 years. We also have the option to utilize our recently established share repurchase program that we announced earlier this year. We will continue to focus on what we can control and look to maximize shareholder value from all facets by:

- focusing on our customers,
- developing innovative products to maintain and expand our leading market positions for mission critical applications and solutions while
- remaining agile as we navigate the continually evolving macro landscape.

I will now turn the call back over to Sean…

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

Thanks, Jeremy. Turning to **Slides 13 and 14**, I will frame the current tariff landscape for Helios, which has created more uncertainty as we step through fiscal year 2025. This is not unique to Helios, and we believe we are well prepared and positioned to manage through this unprecedented period. We have estimated the various potential cost impacts in the second half of 2025 to be $15 million if we took no tariff risk mitigation action as the impacts on the first half of 2025 are limited due to inventory capitalization accounting methods. These estimates do not try to anticipate how global demand could be impacted and the potential downstream effects, as we believe that is too wide of a range of scenarios to predict all plausible outcomes.

As of today, our analysis indicates that we are relatively insulated from the impacts due to our ‘in the region, for the region’ strategy, which we have been executing over the last few years with the aim of servicing our geographic revenue streams more efficiently for our customers. This has proven to be very helpful as it provides optionality to contend with the current tariff dynamics. I would also point out that nearly all the products we produce and ship from our Tijuana, Mexico facility to the U.S. are USMCA compliant, which is a positive for us and a competitive opportunity.

When you look at our direct tariff exposure by country, raw material imports from China and exports to China from the U.S. carry the largest tariff burden. Based on the variety of components we are using across our different operating companies, we estimate China related tariffs to be approximately $13 million of the total $15 million direct tariff cost exposure in the second half of 2025. Within China, we already have electronics manufacturing capabilities from our acquisition of Joyonway plus other hydraulics manufacturing facilities that we have had in China and the APAC region for many years. We intend to leverage these facilities to help mitigate the tariff impact for our China customers.

We also analyzed and projected our second half tariff exposure at the segment level. When you add up the gross tariff expense of approximately $15 million, roughly $9 million would be in our Hydraulics segment with about $6 million in our Electronics segment. Again, to reiterate, this would be the gross impact before any mitigation efforts.

Another potential risk for Helios, if current imposed tariffs remain, relates to our U.S. export sales to China-based customers. For the second half of 2025, approximately $20 million in sales for China-based customers would have traditionally been exported from the U.S., which is currently subject to punitive retaliatory tariffs. We are in the process of transferring manufacturing and assembly into the region to mitigate that risk as best we can.

It is also worth noting we see an opportunity for more sales of the products we manufacture in the U.S. for our U.S. customers. For example, competitors' that rely on their Chinese manufactured products exported to the U.S. have now become sales conquest opportunities due to the punitive tariffs, which allows us to play offense with early wins already occurring. To contend with the cost and demand pressures from tariffs, as well as to capitalize on the opportunities they present, we have a continuous assessment of mitigation work streams across our businesses. We are responding to developments and have deployed various mitigation tools including: pricing actions, alternate sourcing, use of bonded warehouses, leveraging our global manufacturing footprint, and identifying ways to creatively leverage our strengths to play offense and win business.

Turning to **Slides 15 and 16**, we have two and a half more quarters in 2025 to navigate in this rather tenuous global trade environment with shifting geopolitical tensions. Tariffs have created more uncertainty in the second half of 2025. We are not withdrawing our full year outlook, but we are shifting our guidance to focus on just the next forward quarter where we have the highest visibility and have established a track record with meeting our commitments over the last six quarters.

We expect second quarter sales to be in the range of $198 to $206 million, a sequential step up from our first quarter sales. We also project adjusted EBITDA margin to improve over the first quarter to a range of 17.5% to 18.5%. The improving sequential margin profile reflects further operating leverage from the anticipated increased volume. While second quarter sales are expected to be down compared with the year-ago period, the implied sequential sales step up is in the range of +1% to +5%, with strong flow through to the bottom line. Diluted Non-GAAP Earnings Per Share is expected to sequentially increase in the range of +5% to +23%, or $0.46 to $0.54 cents, more than tripling the rate of sequential sales growth.

Looking at the latter half of 2025, we still currently see a path for sales growth over 2024. Until we know with certainty what the final tariff rulings will be, and how the demand environment could start to be impacted, we will keep our focus on delivering our near-term commitments and be ready to respond to the various demand outcomes. As a reminder, our second half sales comparable from last year was significantly depressed from the persistent end market weakness. With our go-to-market initiatives supporting growth and our planned acceleration of new product introductions, we feel well positioned to capitalize on any market stabilizations. These are unprecedented times. We will stay focused on what we can control and communicate with you on the details as we have them with as much certainty as feasible.

Turning to **Slides 17 and 18**, I believe our results in the first quarter validate that the financial priorities we laid out at the beginning of the year remain sound. We are addressing our 2025 key focus areas to reenergize our go-to-market initiatives, rooted in customer centricity. Returning to profitable sales growth is imperative and we have a handful of green shoots being realized, despite the challenged markets. We have increased the pace of new product launches so far in 2025. We have new revenue generating incremental products launched in the first half across our four flagship brands, including Enovation Controls S35 display as well as their CAN keypad, Sun Hydraulics expanded line of electro-proportional cartridge valves, Faster's MultiSlide, and Balboa's PureZone water chemistry management solution. We have streamlined our organization to capitalize on customer relationships and industry knowhow – and the exciting part is we have only just begun.

I'll conclude our prepared remarks with where I started in that true organizational longevity goes beyond simply remaining in business; it involves building a sustainable, thriving organization that can adapt, innovate, and continue to contribute to its industry for the long-term. In April, we surpassed 55 years of being in business going back to the founding of Sun Hydraulics in 1970 by Bob Koski and John Allen. We have changed and evolved, quite significantly over the past decade in particular. I remain incredibly excited about our future and confident in our ability to continue executing on our commitments. I would like to thank each one of the Helios employees across the globe for all their daily efforts. And thank you for being part of today's call and for your ongoing engagement and support of Helios Technologies.

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.