Operator: Greetings, and welcome to Helios Technologies Fourth Quarter 2021 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Tania Almond, Investor Relations for Helios Technologies.

Tania Almond Thank you, operator, and good day, everyone. Welcome to the Helios Technologies Fourth Quarter 2021 Financial Results Conference Call. We issued a press release 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 Tricia Fulton, our Chief Financial Officer. They will spend the next several minutes reviewing our fourth quarter results, discussing our progress with our accelerated growth goals, providing our outlook for 2022, and then we will 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 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 will be provided in our 10-K to be filed with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

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

With that, it is now my pleasure to turn the call over to Josef.

Josef Matosevic: Tania, thank you, and good day, everyone. Before we begin, I would like to acknowledge the world events that are occurring and all of our thoughts and prayers for everyone who have been directly impacted by this conflict.

With that, please reference Slides 3 and 4, and I will summarize our highlights for the quarter and full year 2021. We delivered an excellent quarter and full year in these uniquely challenging times, direct results of the incredible execution from our management team and all of our colleagues around the world. Many thanks to each of them.

I believe we are demonstrating, through the implementation of our Helios business system, the results that can be realized with innovation, determination, resilience and flexibility. Our organic growth of 26% in the quarter and 27% for the year are testaments to our efforts.

We are gaining market share by meeting or exceeding our customers' expectations. We are innovating to create breakthrough solutions to solve complex problems, and we are exercising robust agility to meet the challenges of the global economy. For example, in 2021, the combined CVT family expertise drove product development teams to exceed expectations by launching 22 new products. This is the greatest number of new product releases in the division's recent history and will be a flywheel for organic growth in the coming years.

I'm excited to announce, we also won our first system sale across three of our businesses. This is an international sale that came in through CFP and contains an innovation control display, faster couplings and some cartridge valves. This is exactly the type of synergy that we described at our last Investor Day, as we continue to streamline our customer experience life cycle.

We also just announced another innovation award that we won for our Faster ABC electronic hydraulic hose coupling. Faster was chosen as the winner of the Systems and Components Trophy, Engineers Choice for 2022, sponsored by DLG. This is a big deal for our team, and we could not be more pleased about this recognition.

Finally, Helios was just named on Forbes' 2022 list of America's Best Mid-Size Companies. The ranking is based on earnings growth, sales growth, return on equity and total stock return. We are very humbled to receive this recognition, and, as I said at the beginning, our performance is driven daily by our 3,500-plus colleagues.

There's much work being done behind the scenes as well. We are executing on our manufacturing roadmap to take out costs, simplify processes and address inflationary pressures. We are carefully balancing the make versus buy choices to most efficiently meet our customers' needs and growth demands. We are also investing where needed to ensure we have the capacity to meet demand and expect we will be in a very strong position as the world finds its new normal.

As we collaborate across our organization to leverage the global R&D talent of our engineering teams, we expect we can provide the solutions and responsiveness to continue taking greater market share. This is despite the fact that operating conditions remain less than ideal with continued supply constraints, material inflation and labor challenges, and with the persistence of the variant outbreaks.

As I have discussed before, we have implemented pricing strategies to help address the continued increase in costs, shortages of supply and difficulties with staffing operations. We recognize that we are not alone in these unprecedented times but believe our team is demonstrating resilience and stepping up to the challenge.

It is important to note that we have great financial flexibility and can continue investing in organic growth as well as advancing our acquisition strategy. Our pro forma net debt to adjusted EBITDA ratio is just below 2x and, in addition to the $29 million of cash on the balance sheet at year-end, we have $158 million available on our revolver. In fact, we generated $113 million in operating cash flow in '21 even as we invested in inventory to address the significant material shortages the industry is experiencing. These investments have helped us maintain top-tier industry lead times and are contributing to our growing market share. Our plan is to drive further growth and profits in '22, and, we believe, we are well positioned to continue to execute on our augmented strategy.

Let me review some financial highlights on Slides 5 and 6, and then Tricia will provide more details. Our fourth quarter net sales increased 44% to $218 million, including $26.4 million in sales from acquisitions. We had adjusted EBITDA margin in the quarter of 22.7%, which was impacted by material cost increases, labor and freight inefficiencies based on the macro-operating environment. For the full year, our adjusted EBITDA margin was 24.6%. Diluted non-GAAP cash EPS was $1.01, up 68% over last year, reflecting strong demand, our ability to capture a greater share of growth, and the addition of several excellent acquisitions.

We constantly drive to outperform, and the team did an outstanding job delivering in the quarter and for the full year. The Helios team continues to excel through every challenge, and I could not be prouder.

I will now turn the call over to Tricia to review the financial results and outlook in a little bit more detail. Tricia?

Tricia Fulton: Thank you, Josef, and good day, everyone. On Slides 7 and 8, I will review our fourth quarter consolidated results. As Josef noted, we outperformed and delivered outstanding growth in the fourth quarter, driven by our responsiveness to our customers, focus on lead times, and meeting the strong demand across our markets, even as we operated in a tight labor market and faced the challenges of the global supply chain.

Net sales grew 44% over the prior year period, as we executed our growth plans and continued to take market share. As Josef mentioned, we delivered very strong 26% organic growth during the quarter, even with a $1.5 million foreign currency headwind.

Fourth quarter gross profit of $74 million increased $22 million, or 41%, over the prior year period from higher volumes. Gross margin was 34.2% in the quarter and somewhat in line with last year's fourth quarter. While volumes were up substantially, we also were aggressively addressing supply and labor constraints in the quarter to ensure we could deliver products in a timely manner to our customers.

Omicron created challenging labor inefficiencies in the quarter and continued into the beginning of Q1. We have done and continue to implement multiple pricing strategies, while also carefully managing the business to overcome the higher input costs, shortages of supply, higher freight costs and difficulties with staffing operations.

Our manufacturing strategy is driving results, even though the benefits are being partially masked by the current macro environment. Our teams have been spending a lot of time formulating plans for each business segment, to reimagine how we maximize our “in the region, for the region” and “make versus buy” strategies as we integrate the acquisitions we have made over the last year.

Adjusted EBITDA margin was 22.7%, down 50 basis points from the same period a year ago, reflecting the impact of supply chain and labor constraints. This was partially offset by higher volumes and our disciplined cost management efforts. Our effective tax rate in the fourth quarter was 13.6% compared with 22.4% in the prior year period. The lower rate was due to the release of tax reserves related to previously disclosed tax controversies regarding transfer pricing. This obviously reduced our full year effective rate down a bit lower than our expected range.

Diluted non-GAAP cash EPS improved $0.41 to $1.01, up 68% for the fourth quarter over the prior year period, reflecting strong demand across all industries, operational efficiencies, strong outperformance from the Balboa acquisition, and the one-time tax benefit I just mentioned.

Please turn to Slide 9 for a review of our Hydraulics segment fourth quarter operating results. Fourth quarter Hydraulics sales of $131 million were up 27% over the prior year period and benefited from the continued broad-based improved demand in our primary end markets across geographic regions in spite of the $1.5 million headwind from foreign currency exchange rates. This segment had very strong growth in the Americas and EMEA in the quarter. Organic growth in this segment was 21% over the prior year period.

Q4 Hydraulics gross profit benefited from higher volume; although, margin was impacted by labor inefficiencies due to Omicron as well as higher raw material, freight and logistics costs. The 210-basis point operating margin expansion to 21.1% compared with the prior year period reflects operating leverage on higher volume as well as our disciplined execution on our manufacturing strategy.

Please turn to Slide 10 for a review of our Electronics segment fourth quarter operating results. Electronic sales were $87 million, up from $49 million in the year ago period, reflecting an increase of 79%, including $20.7 million from acquisitions. Organic growth in this segment was 36% in the fourth quarter. We are seeing strong demand from the health and wellness and recreational markets, although supply chain constraints limited sales in both end markets in the quarter.

Electronics segment gross profit of $27.5 million in Q4 increased with acquisitions and higher volumes. Electronics gross margin of 31.7% reflects higher costs related to Omicron labor inefficiencies and macroeconomic supply chain challenges. The quarter was also modestly impacted by the different margin profile of the Balboa acquisition for the eight additional weeks we owned Balboa in the fourth quarter of 2021 versus 2020.

Operating income for the Electronics segment of $15.4 million was up from $9 million in the prior year period, although operating margin contracted 80 basis points. The 2021 fourth quarter margin reflects the difficult macro-operating environment in the quarter.

We have begun to see some relief regarding labor challenges in the last several weeks as colleagues who were impacted from the latest variant started returning to work. Additionally, we have also started to see some pockets of relief in supply chain, though not material yet.

Please turn to Slide 11 for a review of our cash flow. Cash from operations was $31.2 million in the fourth quarter compared with $31.5 million in the prior year period. For the full year, we generated $113.2 million in cash from operations. We are carefully balancing our working capital requirements with our efforts to provide timely deliveries to our customers amidst significant demand and material shortages. We have increased inventories, especially with longer lead time items, in order to address our backlog.

For the quarter, CapEx was $9.7 million, up from $7.4 million in the fourth quarter of 2020. CapEx for the full year 2021 was $26.8 million, up 84% compared with 2020 and about 3% of revenue. This reflects investments in capacity and productivity, additional CapEx of the acquired companies, and maintenance CapEx. We are expecting CapEx in 2022 to be about 3% to 5% of revenue.

Free cash flow was a strong $21.5 million in the fourth quarter. Our free cash flow conversion rate was 83% for the year, lower than our typical rate, which has consistently been over 100% the previous 3 years. While in 2020 there was a significant release of working capital during the onset of COVID, in 2021, with the resurgence in demand, working capital expanded to keep up with our growth.

Regarding our capital structure on Slide 12, we consistently demonstrate our ability to rapidly delever our balance sheet. Our strategy is to flex up leverage for strategic, disciplined acquisitions, and then quickly delever using cash generated from operations. We are now below our long-term target range of pro forma net debt to adjusted EBITDA leverage of 2x. We will continue to use cash to pay down debt as we reload for future acquisitions. This is impressive, considering we improved from 3x net debt to adjusted EBITDA at the end of 2020, and it shows the power of our cash flywheel.

We used $24.4 million in cash to reduce net debt in the quarter. Total debt at quarter end was $445 million. We also had $158 million available on our revolving lines of credit, with total liquidity of $187 million. As a reminder, our capital priorities remain debt reduction, organic growth through new products and technologies, acquisitive growth, and distributions to shareholders.

Now let's turn to Slide 13, and I will discuss our initial outlook for 2022. Our guidance for 2022 assumes constant currency using quarter-end rates; it is based on organic growth only as well as the assumption that our markets are not further impacted by the global pandemic or the geopolitical environment.

As a result of our outperformance this quarter, we are establishing our revenue outlook for 2022 to be in the range of $930 million to $950 million, which implies an annual growth rate of approximately 8% at the midpoint of the range. This is directly on our path to our target of at least $1 billion in revenue by 2023.

In terms of quarterly revenue flow, we expect the first half and second half to be relatively balanced percentage-wise but do expect the first quarter to be the lightest of the year. This is partially due to the timing of pricing strategies taking effect.

Our adjusted EBITDA margin outlook is 23.5% to 25%, slightly higher than where we ended the full year of 2021 at the top end of the range, but it takes into account the operationally challenging times everyone finds themselves in ending the year, given supply chain constraints, inflationary impacts on materials and freight, as well as labor inefficiencies.

As we step through the year, we would like to tighten up the low end of the range, but feel it is prudent in this current macro environment to start here. We continue to leverage our manufacturing strategy and operational efficiencies to offset these headwinds. This implies that our expectations for adjusted EBITDA dollars are in the range of $219 million to $238 million, or roughly 7% annual increase at the midpoint of the range.

Additionally, we continue to invest through non-CapEx related items into our manufacturing strategy to reap the rewards of margin improvement over the long term. We expect interest expense to be down to $14 million to $15 million at current borrowing levels and rates. The effective tax rate for 2022 is expected to be in the range of 21% to 23%. Depreciation should be between $24.5 million to $26.5 million, while outlook on amortization is down to approximately $28 million to $29 million in 2022.

We expect diluted non-GAAP cash EPS to be approximately $4.35 to $4.60 per share in 2022. This represents a 5% increase over our 2021 results at the midpoint of the range. We are driving forward with our augmented strategy and delivering results, even as we address the highly unusual operating environment that we all find ourselves in.

Our efforts are focused on providing our customers innovative solutions, expanding our addressable markets, investing in future capacity, leveraging our fixed cost base and advancing our manufacturing and operations to help offset the headwinds from higher materials, people and logistics costs.

Before I turn the call back to Josef, I just wanted to offer a few personal remarks as we start off another new fiscal year. These are the most exciting times of my 25 years with the company and my 16 years as its CFO. I have had the tremendous honor of living through the amazing evolution that the company has experienced over that timeframe.

Over the last several years, we have really turned up our intensity as a management team through augmenting our strategy and executing on both our organic growth along with our acquisitions. I have seen the organization really grow and mature in step functions, and I'm really excited by the path that we have constructed for ourselves over the coming years. I could not be more invigorated about our strategic direction and the amazing team that I'm working with.

With that, please turn to Slide 14 and I will turn the call back to Josef for some final comments.

Josef Matosevic: Thank you very much, Tricia.

We had laid out the Helios business system in June last year, along with our key mission pillars of value streams. I think it's worth taking a moment to reflect and reiterate, as we start the new year, on what those priorities are. We believe the value streams will deliver growth, diversification, and market-leading financial performance as we develop into a more sophisticated, globally oriented, customer-centric and learning organization.

The four value streams include: number one, protect the business and ensure the cash flywheel continues to spend. We plan to drive the cash flow engine through new product launches while we leverage existing products. We will cultivate customer centricity, and we are investing in expanding capacity as well as productivity improvements. We will continue to execute on our newly developed global manufacturing and operating strategy that will drive improved margins over time.

Number two, think and act globally to better leverage our assets, accelerate innovation and diversify end markets.

Number three, create great opportunities for growth, while reducing risk and cyclicality, by diversifying our markets and sources of revenue. We will add technology, capacity and create differentiation that will make us very tough to follow.

And finally, number four, develop our talent through a culture of customer centricity, continuous improvement, embracing diversity, engaging the team, focusing on shared deeply rooted values, and promoting a learning organization.

These four value streams are interlaced with our acquisition strategy as well as our Helios Shared Corporate Values. I think you can see in our '21 results that we are doing what we said we are going to do, guided by this framework. We are clearly on our path to achieve our accelerated milestone of at least $1 billion in revenue by 2023 with top tier adjusted EBITDA margins. I have great confidence in our team's ability to execute.

As we enter 2022, we are confident that we can drive growth and deliver strong margins. We have tremendous potential as an organization and I am very optimistic that it will be further unleashed as we move beyond these inflationary and macroeconomic challenges.

As I have said before, we have our long-term sights set on becoming a much larger company. With these full year results, I believe, we are clearly demonstrating progress against those goals. Every year, I'm more excited than the last when I think about the opportunities that lie before us and would like to thank you, our shareholders, for your continued support and confidence.

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

Operator: [Operator Instructions] Our first question is from Mig Dobre with Baird.

Mig Dobre: I guess where I'd like to start is, you talked about the supply chain being a challenge. Obviously, we're hearing that from everyone, but looking at your performance in the fourth quarter, you exceeded the top end of your revenue as well as EBITDA guidance. I'm curious how you managed to deliver that in terms of just your own internal efforts to manage the supply chain. You talked about the fact that you're maintaining lead times that are much better than your competitors, so I'm kind of looking for some color on that, if you can quantify it at all. And on this whole idea of superior lead times leading to market share gains, you pointed out the fact that you are seeing those market share gains. Can you provide any context around that as well?

Josef Matosevic: Yes, certainly, Mig. Look, as we said a few times now, during the COVID times, we knew the next step in this journey will be and could be very cyclical in terms of material supply versus demand, so that's where we initiated our manufacturing strategy, basically meaning, clearly identifying our capacity globally, North America, low-cost country, and see how much we should actually make versus how much we should buy. We then developed a very structured approach where we invested internally in having folks within our supply base, protecting our core competencies that we need to maintain those industry lead times we have been talking about, anywhere between 6, 7 or 8 weeks. There was a host of processes and structural things we have done with the business to position ourselves. Clearly, we are going through challenges like many other companies do, but not as significant as you may think, just by better virtue of our manufacturing strategy, we are driving those improvements internally.

Mig Dobre: And as far as the share gains that you referenced?

Josef Matosevic: If you look at the last, in particular, 6 or 7 months, we have seen a strong indication from many customers coming our way and calling, and most of those customers are pretty new to us, of the extended lead times that they have been getting and hearing, ranging anywhere from 20 weeks to 28 weeks to 48 weeks. We were able, which was our strategy, actually, to maintain our lead time of 6 to 8 weeks. So, the backlog has filled up pretty nicely across the board. That's what I was referring to, Mig.

Mig Dobre: Okay, and to that point, on backlog, I'm trying to get a better sense for how you derived your 8% top line growth guidance. Can you comment at all in terms of what your visibility is here, based on what you're seeing in terms of backlog or new customer wins? I'm also curious if there's any way to differentiate between hydraulics and electronics. For electronics specifically, how resilient do you think the health and wellness component of the business will be in '22, just given the very difficult comparisons that you have relative to 2021?

Josef Matosevic: Yes, certainly. Let's start with the most difficult one, on the health and wellness. Clearly, Mig, are we going to see an additional 40%, 50% year? The answer is no. Are we going to see this business falling off the cliff? The answer is also no. We have really positioned ourselves, again, with our lead time. We have one manufacturing facility in Baja, Mexico that we have invested in pretty heavily over the last year, 1.5 years, and we also diversified our markets and customer base. And with the demographic shift, even in the European and the Asian regions, we are still seeing very strong demand coming out of this market. We will continue to see growth rates on both sides, not just on Balboa side, but also on the Enovation side.

In terms of growth overall, Mig, we are well balanced between Hydraulics and Electronics. The vast majority of the organic growth is truly growth and not pricing. We have a strong confidence level with everything we have done here over the last 1.5 years with the new products that we have introduced and continue to introduce coupled with our augmented strategy and the lead times we have. Structuring the product cost around sales and marketing really built this competitive weapon, and our backlogs continue to be very strong. We have pointed out that our top line is primarily based on organic growth only, and as we continue to work down the leverage, our goal was to be at 2%, or slightly below 2%. By year-end, we achieved that, and we should be able to turn on some acquisitive new companies here soon. So, that's kind of where we are, Mig.

Tricia Fulton: Yes. I would also add that our visibility on the backlog side is pretty good in all of the businesses and across the segments, especially for the first half of the year where we have some really good indicators. As Josef pointed out, the demand in our end markets has been really strong, from what we've seen towards the end of Q4 and into Q1, so I think we're very encouraged by that.

Mig Dobre: Okay. If I may have one final one, just a clarification on pricing. You talked about Q1 being a little bit lighter, given the timing of pricing. Tricia, maybe you can add some additional context on that comment. I'm trying to square this with Josef's comment that the 8% growth guidance is not really pricing driven. Based on everything we're seeing everywhere in the world, pricing would, in theory, be a pretty big component to that 8%. Correct me if I'm wrong, and yes, good color on that would be helpful.

Tricia Fulton: Pricing clearly has some effect on it, but the majority of it really is driven by the organic volume. The businesses are rolling out most of our pricing strategies some time in Q1 or towards the beginning of Q2, so we aren't getting a full year effect of them, and certainly not a full effect in Q1 in any of the businesses. Pricing will drive a little bit more probably in the back half of the year, but we wanted everyone to understand that they are not going to be the primary driver of what we're seeing in Q1. It will be the organic growth piece there. I think we're happy with where we are on the pricing, but it's not going to have a big impact on Q1.

Operator: Our next question is from Nathan Jones with Stifel.

Adam Farley: This is Adam Farley on for Nathan. Your net leverage is below your target 2.0x range. Maybe you could talk about your M&A pipeline. How active is the pipeline and what is the current pricing like in the economy?

Josef Matosevic: As previously mentioned, Adam, we continue to be very disciplined stewards of the business and our shareholders, obviously. Our pipeline on the flywheel acquisitions is very strong. We also have a separate pipeline that focuses on breakthrough technologies with our transformational acquisitions. That pipeline is relatively strong, and we have been working on both elements here over the last few months.

Pricing is a mixed bag. Considering this macroeconomic environment, unfortunately, there have been companies who have not done as well as they probably should. In some cases, we are seeing some attractive targets coming to the market that are actually priced pretty decently and priced well. In other cases, the multiples are just nuts. We are not in any dire situation where we have to do something yesterday versus really sticking to our strategy and not buying companies to grow the top line. We can do this ourselves very well versus adding differentiation into the business; that will continue to make us tough to follow.

Clearly, we are getting closer on some targets. We have been very transparent about this from day one. As we lever down to the 2.0x, we will start to look at companies again, which we are, but it will be methodical; it will be structured, and it will not be to add just top line.

Adam Farley: Okay, and then, on the internal side, it seems like growth investments are increasing in 2022. Could you provide some color on where those growth investments are going?

Josef Matosevic: I'll start with one and Tricia can take it over. One big component, obviously, will be in the capacity. As Tricia mentioned earlier, due to our lead times and many new products we have introduced and continue to introduce, you saw a couple of press releases just come out very recently, we are watching our capacity very closely. A piece of our investment will go in adding additional capacity, and also on the OpEx as well, virtually people and OpEx dollars. That's one big component. Tricia, you can take it from there.

Tricia Fulton: As Josef pointed out on the call, we have our targets set on being a much larger company. We are now building out some of that infrastructure to make sure that we're ready to be that much larger company. This includes some FDA resources, whether that's engineering for innovation or resources for our manufacturing strategy, which is well underway., Clearly, as we move operations potentially in different locations, we're going to need additional resources on the manufacturing side as well to make sure that those are playing out well for us as we grow.

Operator: Our next question comes from Jon Braatz with Kansas City Capital.

Jon Braatz: Josef, I'd like to talk a little bit about the price volume matrix. Are you limiting price increases a little bit below your inflationary pressures? I would have thought that maybe pricing would be greater, but I get the sense that maybe you have decided to take a little bit less price. Am I correct in that?

Josef Matosevic: What you've seen here, John, is, we have taken pricing pretty much throughout last year. You might also remember a comment I made a couple of earnings calls ago that, in some areas, it will be very targeted due to the fact that we already have a very strong offering and strong earnings and we wanted to balance that with pricing versus market share gain and still be in a position to maintain the top tier margins that our shareholders enjoy.

So, it was kind of a methodical approach. It's not one size fits all, because we really didn't need to. It was really taking the stand of, we have done so much on our operating front that we can protect our day-to-day, and we really went off the targeted market shares where we knew we can win. So, you see, John, a little bit of both.

Jon Braatz: Okay. I understand. Secondly, since the invasion in the Ukraine, grain prices have absolutely surged. When you talk to your customer base, do you get any sense that the growers around the world are going to accelerate their capital spending plans, or take a more measured approach and just sort of wait and see? Do you get any sense, again, for your customer base that there's going to be an uptick in agricultural spending?

Josef Matosevic: Yes, certainly, John. That obviously has been on top of our radar and there has been a lot of discussions with our customers. What we continue to hear and see is quite strong optimism in terms of where we are in the cycle. We can honestly say we are preparing internally and have been preparing for another small haircut in terms of where the industry is going. But I think those plans have been put now on the back shelf, not just on the shelf, but on the back shelf, because we don't see it. We continue just to see a very strong market, at least in the areas we participate.

Jon Braatz: Yes. Okay, and one last question. Relatively speaking, it looked like Asia was, in terms of sales, a little bit weaker than your other markets. Is there anything there that contributed to that relative weakness?

Tricia Fulton: I don't think there's anything specific that contributed to it, but we did see it across multiple end markets where China construction and China health and wellness are kind of flat to pointing down a little in timing or what. There's nothing specific that we can tie it to, but we did note that we saw some softening in China.

Operator: [Operator Instructions] Our next question comes from Jeff Hammond with KeyBanc Capital Markets.

Jeff Hammond: I just really want to go through the margin dynamics, 3Q to 4Q, and what got more difficult specifically; and then, how to think about cadence of margins 4Q to 1Q.– It sounds like supply chain is getting a little bit better, But labor is still a little bit of an issue.

Tricia Fulton: In Q4, we had less workdays. We saw some cost pressures on the PPV side in Q4 as well. We had labor inefficiencies that we pointed out on the call as well due to Omicron. It's challenging from that perspective, but we were also making investments in Q4 as we were heading into 2022, knowing that we're going to see growth again in 2022 off of really a pretty phenomenal 2021 number. We were happy with where we were able to end Q4.

We had a really strong year in 2021, and now looking into 2022, as we look Q4 to Q1, we are starting to see a little bit of easing up on the supply chain constraints, which is encouraging. We said it's not quite material yet to us, but it's really being driven by a lot of the work that we're doing on the manufacturing and operational strategy. That's going to continue to drive margin growth. I pointed out to Mig earlier that we aren't going to get all of the pricing in Q1 that we will probably get in the following quarters, but we're still encouraged by what we're seeing on the supply chain side, and our ability on the operations side to really drive improvement.

Jeff Hammond: What's getting better on the supply chain side? I know you said it's early, but anything specific?

Tricia Fulton: We're just starting to see parts flow a little bit better than we did in end of Q3 and throughout most of Q4. We've been able to procure parts. We're starting to get parts in that we've been waiting for for several months that were on very long lead times, but they're starting to come in now. On the Electronics side, in particular, that was very challenging as we worked through Q2 and Q3, but at the end of Q4, it started to free up a little bit.

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

Mig Dobre: I wanted to follow up on what Jeff was asking here. If we're looking at margins sequentially Q4 into Q1, do you expect any improvement in margin sequentially here, Tricia? And I'm thinking about revenue, too. Normal seasonality, I think, would have your revenue off in Q1 relative to Q4, but we obviously know Omicron has been an issue in Q1. Do you think that normal seasonality holds?

Tricia Fulton: This is a really difficult environment for us to try to predict what's going to happen next. We're trying to be cautious in the way that we're approaching the business in Q1. Could margins improve with higher top line revenue? There's going to be leverage that we get on some of the fixed costs, but we are still seeing a lot of PPV flow through, and it's a matter of what products we're making and what products have that PPV attached to them. That's still a daily battle that we're fighting to make sure that we have all the parts to be able to ship products. It's encouraging that we're seeing our past dues come down throughout Q1, so I think that's a good sign for where we can take top line and margin in a very tough environment. I think, the short answer is, it's possible, but we're cautiously optimistic on that answer.

Mig Dobre: Right. I get the fact that there's a lot of unknowns, but I just want to make sure that we all have our expectations properly set. I mean, we could be talking about potentially less than 23% EBITDA margin to start out the year. That's essentially what you're saying, which would imply a pretty healthy ramp to be able to get to the mid-point of your guidance. I guess my question is, where are you on a price cost balance? Do you think you'll be able to be at least price cost neutral coming Q2 with these price increases that you referenced previously on the call?

Tricia Fulton: Yes. I think that we could be price cost neutral in Q2. It's probably not going to happen entirely in Q1, because of the way the pricing is rolling out, but, certainly, that's our goal, to achieve that neutrality, or even better in some cases, as we continue with the manufacturing and operations strategy that we're rolling out globally right now. The whole purpose of that really is to continue to drive margin improvement from our own internal perspective.

Josef Matosevic: And Mig, I would be remiss if I didn't remind us, there was a similar question at the beginning of last year and I certainly hope that we have established a track record here of doing what we said we're going to do. We're in a very similar situation. Trust me when I'm telling you, if the situation would be slightly different here with the supply chain challenges, labor challenges, freight, and what's going on in Europe and Asia, we would probably never have this conversation right about now.

It's just allowing that pressure to work itself out of the system, but we feel, overall, on a phasing side, that 2022 could be another very strong year for us and for our shareholders. I hope we can all look beyond just these current times. Full year, I believe, we have demonstrated significant strength. We have the processes and systems in place and the products to really, really win and, with a little bit of push here, even overachieve our guidance. There's clearly some caution baked in here by design, because we don't want to get ahead of ourselves. That's what the market is telling us right now.

Operator: Thank you. There are no further questions at this time. I'd like to hand the call back to management for any closing comments.

Josef Matosevic: Yes. Thank you. So, thank you, everyone, for joining us today. We really appreciate your interest in Helios and very much look forward to updating all of you on our first quarter results in May. We remain super confident in our ability to continue to outgrow and deliver value for all of our stakeholders. Have a great day and please stay healthy.

Operator: This concludes today's conference. Thank you very much for your participation. You may now disconnect.