

Tania Almond, Vice President, Investor Relations and Corporate Communication

Thank you, operator, and good day everyone. Welcome to the Helios Technologies Second 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 second 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 **Slide 3** 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 thank you all for joining us as I provide an update on Helios' second quarter results and outlook for the remainder of fiscal 2024.

Given recent events, I am currently serving as Interim President and CEO, in addition to my CFO responsibilities. As we announced last week, the change in leadership was a result of an internal investigation and subsequent findings of that investigation. I am humbled and energized to be leading the Helios team during this period of transition. I am fortunate to have a talented management team alongside me, including our Presidents, Matteo Arduini our EMEA Hydraulics leader, Rick Martich, our Americas Hydraulics leader along with leading global operations and system sales, and Lee Wichlacz our Electronics segment leader. In addition to the Presidents, I have a strong team working with me at the corporate level who have been invaluable. As a leadership team, we are unified and focused on what we need to accomplish. We are supported by our Board of Directors, including Philippe Lemaitre with his expanded role from Chairman to Executive Chairman of the Board.

With this situation now behind us, I am really pleased with how the Helios team has responded by maintaining their focus on executing our plans, serving our customers, and supporting

employee development. While a search for a permanent CEO gets underway, we remain committed to our strategy as an integrated operating enterprise delivering value and differentiation through our highly engineered, mission critical hydraulics and electronics products, services and system solutions.

Foremost, we are staying incredibly close to our customers. Our relationships are built around the engineering expertise we bring to help them solve their most complex problems including increased efficiency, energy savings, higher productivity, and/or electrification, along with achieving smaller fit and form factors. Regardless of where we are in a market cycle, the fact that we are sitting at the intersection of hydraulics and electronics enables us to help customers do more with less, always adding value for them. Our strategy to organize ourselves and serve “in the region, for the region” also allows us to efficiently satisfy customer demands globally. It is also worth highlighting that we are encouraged by the early interest of our Cygnus Reach software solution, providing remote support for IoT smart devices. With its patented protection, it can be a market disruptor and differentiator for those customers that are looking for the first mover advantage.

Our results in the second quarter validate the strength of the Helios team and model. Consistent with the first quarter results, our Balboa Water Group recovery outpaced our sales expectations, which resulted in beating our second quarter sales guidance, with our other businesses executing in-line with our expectations. As we have talked about in the past, while very healthy, the Balboa business operates at a lower than company average margin level. Their outperformance therefore impacts mix, though we were still able to generate a second quarter sequential step-up in our adjusted EBITDA margins due to our incrementals from favorable volume.

During the second quarter, we amended our credit agreement with our debt market lenders. The syndication process yielded a \$100 million oversubscribed position, indicative of the strong support and relationship we have with our bank partners. I am grateful to the existing lenders that are choosing to grow with us, including our lead left arranger, PNC Bank, who executed our refinancing flawlessly. The other existing banks all received named agent roles and stepped up their commit and hold levels. Additionally, we targeted adding specific new lenders to round out what is now a stronger and deeper bank group that optimizes our capital structure in the near-term, but more importantly is strategically aligned to support the growth we are aspiring to achieve. In addition to upsizing our revolver by \$100 million, we also extended debt maturities out to June 2029 and reduced our borrowing spreads. These enhancements equate to improved earnings, cash flow, and available liquidity as compared to our refinanced credit agreement. We are fortunate to have assembled a formidable lender group and we value their support immensely.

We are operating through the uncertain timing of when markets will rebound with actions to focus on the controllables in response to sustained macroeconomic and industry headwinds. These headwinds include compounding inflation, lowered PMI readings, and the well documented agriculture cycle weakness. In addition, a prolonged cycle with elevated interest rates has contributed to weakening consumer confidence, especially for larger discretionary purchases. As a result, the industries we supply have seen lower demand in several of our end

markets. All of our largest public company customers across various industries are projecting fiscal year sales contractions implied in their own fiscal year guidance. While the second quarter started off strong, we saw declines in demand in the latter part of the quarter leading into the start of the third quarter.

We have moderated our outlook accordingly. While we still could achieve some growth at the upper end of our range, we have adjusted our sales guidance for the second half of the year. There were several factors that contributed to our decision. Our end markets, specifically agriculture and recreational have been most impacted. This has directly affected our Faster fluid conveyance technologies business and our Enovation Controls displays and controllers business. Both Faster and Enovation mix higher towards OEM direct sales. When these OEM's are experiencing their own declining sales and pushing out production schedules, this tests our ability to grow. Notably though, our diversification into niche applications and newer markets outside of our core portfolio has been helping to offset some of the pressure we are seeing in our base business. Despite the challenging macro environment, the operational improvements we have made in the business are helping to mitigate the unabsorbed overhead from volume reductions.

With the systems and processes we've implemented over the past year, we've improved our forecasting and visibility. This allows us to identify early indicators, adjust costs more quickly, and ultimately deliver more consistently on our financial guidance. We have the business positioned to still drive margin improvement over last year partially because of these enhancements.

Let me switch gears here to review our financials in greater detail, starting with our second quarter results that can be found on **slides 4 through 8**.

Sales came in at \$220 million, exceeding our expectations as health and wellness experienced growth while industrial and mobile were relatively flat and agriculture and recreational had continued sequential weakness. Net net, both of our operating segments were up sequentially with Electronics leading the way.

From a geographic perspective, we were up sequentially in APAC 10% and the Americas up 3% while relatively unchanged in EMEA. Compared with last year, we experienced nice growth in APAC of 12% against a softer comparable, with a decline of 11% in EMEA and down 5% in the Americas, reflecting challenging end market conditions in those two regions.

Gross margin expanded 40 basis points compared with the first quarter. The realignments made last year in our Centers of Excellence have started hitting their rhythm. They have positioned us well as we expect to sustain our margin improvements even during a pressured sales environment. Year over year, gross profit declined \$5.2 million and gross margin contracted 120 basis points to 32.1%. We are working to return to the mid to high 30 percent range for gross margin over time. As you know, volume is a major contributor for us as that increases fixed cost utilization.

Non-GAAP adjusted operating margin of 16.4% in the quarter was nearly 200 basis points above the trailing quarter. While we still have a way to go, the sequential operating leverage

clearly demonstrates how our SEA cost control efforts combined with expanded gross margin translate directly to earnings improvement.

The 190-basis point sequential improvement in Adjusted EBITDA gets us back into the 20-percentile margin range and reflects the impact of our focused efforts to deliver profitable sequential sales growth with disciplined spending. Year over year, we are comping up against last year's best quarter.

Our effective tax rate in the second quarter was 23% and is the result of regional mix within different tax jurisdictions.

Diluted EPS was \$0.41 and Diluted Non-GAAP EPS was \$0.64 in the quarter and compared with the first quarter they grew 46% and 21%, respectively.

Starting on **Slide 9**, I'll give more color by segment. Hydraulics financial results improved over the trailing period demonstrating positive operating leverage. While sales were up 2% over the trailing period, operating income grew 10%.

Compared with the prior year, sales were down 4% with softness across several end markets and against a challenging comparable. Sales declined in the agriculture, mobile, and industrial end markets. Foreign exchange had an \$800 thousand unfavorable impact on segment sales.

Sequentially, gross profit increased \$400 thousand, or 1%, and gross margin contracted 50 basis points reflecting mix. Gross profit declined \$4.8 million year over year resulting in gross margin contraction of 180 basis points primarily due to fixed cost absorption on lower volume and higher labor costs.

SEA expenses were down \$1.7 million or 7% compared with the prior year period. We saw favorable results in the quarter due to lower labor and benefit costs. We have also targeted SEA cost control initiatives to better match the current demand environment and help streamline our businesses.

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

Sequentially, the electronics segment expanded \$4.6 million, or 7%, driven by strong double-digit growth in health and wellness, consistent with the first quarter performance. Year over year, Electronics sales declined by \$1.0 million, or 1%. Continued strength in health and wellness mostly offset the declines in industrial, mobile and recreational markets. Acquisitions contributed \$1.2 million in sales in the second quarter. Foreign exchange was a \$100 thousand negative impact.

Sequentially, Electronics gross profit took a nice step up by \$3 million, or 13%, and gross margin expanded 200 basis points driven primarily by volume growth, operational focus on efficiencies and facility footprint optimizations. Gross margin was 34.6% and only declined by 10 basis points year over year.

The sequential sales and gross profit growth drove solid operating leverage in the segment. Compared with the first quarter of 2024, operating income grew \$3.2 million or 45% and margin

expanded 370 basis points. This further demonstrates the incrementals that can flow through our business model as the volume returns.

SEA expenses were down 1% compared with the trailing first quarter and up 9% compared with last year. We did not close the i3PD acquisition until the end of May, so the year ago period did not have it fully loaded into the compare.

Please turn to **Slide 11** for a review of our cash flow. We have continued to improve our cash conversion cycle. We generated cash from operations of \$33.8 million up 30% over the second quarter of last year and up 90% compared with the first quarter of this year. We continued to reduce inventory which is down 4% since the beginning of the year. This is a meaningful part of our efforts to improve our cash conversion cycle as we step through the balance of the year. Capital expenditures in the quarter were \$8.1 million, or 3.7% of sales. Spending is focused on investments in machines, tooling, and EMEA footprint optimization.

Turning to **Slide 12**... At the end of the second quarter, cash and cash equivalents were \$45 million, and we had \$308 million available on our expanded revolver. Total debt was down 4%, or \$22 million, from the end of 2023 and has shown steady declines over the last four quarters, bringing our net debt leverage ratio down to 3 times.

I already covered our refinancing which gives us confidence in our financial position. We are driving our teams to accelerate our cash generation efforts and ultimately reduce debt further.

We are proud of our 27-year record of dividend payments that we will continue to prioritize from a capital allocation perspective.

Turning to **Slides 13 to 14**, as I mentioned, given the macro conditions resulting in lower order demand our perspective on the second half of the year is more cautious and we are adjusting our outlook for 2024 accordingly. In addition, our revised guidance reflects the operational actions we have undertaken to streamline our operating costs. The top line adjustments reflect a more challenging environment than we, or some of our industries, expected this year. I am pleased with the teams' ability to identify actions to offset the margin impact of the volume pressure and still have line of sight to potential top line growth at the upper end of our range in this environment.

As shown, we are now moderating second half sales expectations which implies flat to up 3% compared to the prior year period. This equates to a full year sales range of down 1% to up 1%, or \$825 to \$840 million. Despite the sales moderation, we are maintaining our adjusted EBITDA margin guidance, which is in the range of 19.5% to 21.0%. We have adjusted diluted non-GAAP earnings per share to be in the range of \$2.25 to \$2.45, with the potential growth over last year at the higher end of the range.

We are basing our sales adjustments on many inputs. Our external resources, whether our own OEM customer's production and sales expectations or industry market associations including NFPA, all point toward the softening order demand we are experiencing. This is causing us to moderate sales expectations for the Hydraulics segment. We are not able to offset the Hydraulics segment weakness with additional growth in Electronics as the OEMs there are

signaling softness due to sustained higher interest rates limiting consumer demand for spas, boats, and recreational products.

We have calibrated Capex projects and will continue to drive working capital efficiencies to improve our cash generation during the balance of the year. Given the change in volume expectations, it has, and will take us time to flush through working capital. We still expect our leverage ratio to come down in the second half of the year as we strengthen our returns and realize the benefits of our working capital initiatives. Our third quarter estimate for sales is in the range of \$192 to \$200 million. Even with a sequential step down in sales, we expect our efforts to improve efficiencies combined with cost adjustments will enable us to deliver adjusted EBITDA margin in the range of 20 to 21% for the third quarter.

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

Slide 14 provides some understanding of where we see our market and operational drivers by segment.

Looking to **Slide 15**, I will speak to the progress we are making against the financial priorities we laid out at the beginning of the year for 2024. As we entered the year, we committed to driving sequential improvement in the first half, followed by second half year over year profitable sales growth. We feel very good about what the team has accomplished to date, focused on execution and driving consistent and predictable performance. The second quarter's sequential top line growth, expanding margins, and disciplined working capital management validate the adjustments we have made in the business are yielding positive outcomes. For the third consecutive quarter, the Helios team delivered financial results that met or slightly beat our guidance. For the fourth consecutive quarter we applied the cash generated from operations and reduced our debt.

We are strengthening the underlying financial discipline and structure of Helios. Our goal is to elevate the returns on our investments over time and build on the positive momentum we have delivered over the past several quarters.

As we embark on the second half of the year, we are confident we can continue navigating the choppy markets thanks to our diversification across geographies, end markets, and customers. As a reminder, we do not have a single customer that comprises more than 5% of our total company sales volume. We will continue to closely manage our controllables as we have made great strides in streamlining operations and preserving important R&D investments. We know that staying on the gas with innovation is key to emerging as a stronger company when our end markets stabilize. We will emerge from this market cycle stronger with great earnings power and a healthy balance sheet, positioning Helios to deliver stronger shareholder returns.

In conclusion, I want to extend a heartfelt thank you to the thousands of dedicated employees worldwide who are tirelessly committed to serving our customers day in and day out. They are the lifeblood of our culture and organization. I am incredibly honored and committed to leading the ongoing execution of our strategy while building upon the positive momentum we are generating throughout our organization. The future is bright for Helios, and we are excited to deliver on our second half commitments. Lastly, thank you to all our customers, suppliers, shareholders, and other stakeholders. Your partnership and support fuels our journey and

drives our enthusiasm as we execute our transformation into a value creating, integrated operating company.

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 (helios technologies.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision.