

**Operator:** Greetings, and welcome to the Helios Technologies First Quarter 2020 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Karen Howard, Investor Relations for Helios Technologies. Thank you. You may begin.

**Karen L. Howard:** Thank you, Operator, and good morning, everyone.

Welcome to the Helios Technologies First Quarter 2020 Financial Results Conference Call. On the line with me is Tricia Fulton, our Interim President and Chief Executive Officer. Tricia was appointed to this interim role as announced on April 9, upon separation from the Company of our former President and CEO. Tricia also continues to serve as our Chief Financial Officer. She will review the results that were published in the press release distributed after yesterday's market close. If you do not have that release, it's available on our website at [www.hlio.com](http://www.hlio.com). You'll also find slides there that will accompany our discussions today.

If you look through the slide deck, on **Slide 2**, you'll 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. 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 are provided in the earnings release as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at [www.sec.gov](http://www.sec.gov).

I also want to 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 to non-GAAP measures in the tables that accompany today's earnings release as well as in the slides. Tricia will summarize our financial performance and strategic progress during the first quarter of 2020 as well as her perspective on our outlook. After that, she will go through the details of our financial results for the first quarter before we open up the line for questions and answers.

And with that, it's now my pleasure to introduce Tricia.

**Tricia F. Fulton:** Thank you, Karen. Good morning, everyone.

I will start on **Slide 3**. We were pleased with our first quarter results, demonstrating strong top line revenue and operating performance. We realized consolidated sales of almost \$130 million. Our backlog continued to support our sales, and order levels were relatively stable throughout the quarter. Most of the quarter was business as usual for us until the COVID-19 pandemic conditions began to affect our operations in mid-March. The shutdown of our factory in Italy due to government mandate had about a \$5 million unfavorable impact on first quarter sales. Our strong operational execution in Q1 was offset by a noncash goodwill impairment charge for our Faster reporting unit. This goodwill adjustment of \$39.1 million was driven by the uncertainty of the longer-term impacts of COVID-19, and reduced EPS by \$0.99 per share, resulting in a GAAP EPS loss for the quarter. However, from an operational performance standpoint, we realized a solid adjusted EBITDA margin and non-GAAP cash EPS relative to our sales levels.

Please turn to **Slide 4**, and I'll summarize our strategic business highlights for the first quarter of 2020. Despite lower sales, we reported gross margin expansion compared with the prior year, evidencing our ability to manage costs and continue productivity improvements. Recall that at the beginning of last year, we completed the facility consolidation project for our cartridge valve technology, or CVT, business. As we progressed during 2019, we experienced productivity improvements from that initiative and further continuation was evidenced in our first quarter 2020 results as well.

We have completed the infrastructure of the CVT engineering center of excellence, and it is mostly operational. The final pieces of equipment should arrive and be installed by late summer. This facility will provide us with

the R&D and testing capability needed for our new product development to feed our organic growth objectives for CVT as part of Vision 2025.

Importantly, increasing cash flow and reducing debt have historically been focused goals for us, and we have made very good progress over the past couple of years. Additionally, in the first quarter of 2020, we have reduced our net debt by over \$11 million, expanding our already strong liquidity position and maintaining our 2.1x net debt to adjusted EBITDA ratio.

New product development has been, and continues to be, an important component of our Vision 2025 strategic plan. We intended to introduce our new ACE™ software tool and MCx™ hydraulic controllers at the CONEXPO trade show in Las Vegas in early March. Due to safety concerns for the health and well-being of our employees, we were unable to attend this event. We believe this product is critical to our electrohydraulic strategy, and therefore, did not want to delay its launch. Our team has been conducting significant virtual new product introductions and training for our channel partners and customers.

ACE enables system experts with little to no software coding experience to create full-featured machine control applications efficiently. Paired with our new MCx hydraulic controllers, ACE brings together the entire control system and intelligently integrates displays, power distribution modules, valves, actuators, joysticks and engine data for robust and exceptional control. The game-changing speed and accuracy of ACE, combined with robust highly configurable hardware of MCX controllers, is unlocking a host of possibilities for our customers. The versatility of the products lend themselves to a variety of applications and end markets.

Let's turn to **Slide 5** for our perspective on outlook, in light of the COVID-19 pandemic, before we review our financial performance in more detail. These are certainly unprecedented times. As a result of government mandates, our China operations were shut down for about six weeks beginning in February through mid-March. Production at our Italian facility was shut down for about four weeks in March and April, although customer shipping activities continued. After three additional weeks, where our ability to manufacture at full capacity in that facility was limited to only certain government-approved activities, I'm pleased to report that as of yesterday, we are now able to engage in full production at our Faster facility in Italy.

All of our other significant operations were deemed essential and are running near full capacity. In all facilities, we implemented substantial procedures to limit the spread of COVID-19 and keep our employees safe and healthy while responding to the needs of our customers. Several of our customers' facilities were shut down under government mandates, especially in Europe. For the most part, our supply chain hasn't been significantly impacted.

When we provided you with our business update at the end of March, we withdrew our 2020 guidance. At that time, most of our businesses had not yet been significantly impacted by COVID-19. However, the economic impact of the pandemic has negatively affected our sales and orders for April. We expect second quarter headwinds, but anticipate that the largest impact was in the month of April due to shutdowns of many of our global OEM customers. A portion of our backlog has been postponed from April to later in the second quarter and a smaller number of orders have been canceled. In other cases, we do not have updated order schedules from OEMs due to their extended shutdowns.

Given this heightened uncertainty, we don't have sufficient visibility to comment on the remainder of the year. Accordingly, we have completed multiple planning scenarios for 2020 at varying demand levels. We have already instituted certain cost-containment steps in an effort to mitigate the effects of the downturn. These include the following: a 20% temporary salary reduction for all corporate officers; permanent layoffs and temporary salary reductions at Enovation Controls; reduction in the use of contingent labor; a hiring freeze; deferral of some capital expenditures; and our Board has agreed to temporarily reduce their compensation by 20%.

We have identified additional actions that we could take, if needed, to further protect the health and liquidity of our business. These include actions such as postponing additional nonessential capital expenditures, eliminating our temporary workforce, reducing or eliminating overtime, applying additional salary reductions, reducing working hours to lower payroll expense, executing furlough programs and/or additional layoffs and further reducing discretionary spending.

The extent of such actions will be determined by the magnitude and duration of the economic downturn. Our management team will continue to monitor and assess the impact of economic changes on our businesses and take the necessary actions.

I will now turn to **Slide 6** to review the financial results for the first quarter in a bit more detail. Sales were down \$15.3 million or 10% compared with last year's quarter, excluding a \$2.1 million unfavorable currency impact. Approximately \$5 million of the decline was attributable to the COVID-19 pandemic. On a regional basis, during the first quarter of 2020, our sales to APAC were about the same as last year's first quarter despite a pause in China for COVID-19. Sales to the Americas and EMEA markets declined by 13% and 19%, respectively. As a percent of the consolidated total, sales to the Americas, EMEA and APAC regions were 45%, 28% and 27%, respectively, in the first quarter.

As I mentioned a few moments ago, our GAAP EPS looks distorted for the quarter, reporting a loss of \$0.54. It includes a \$0.99 per share noncash charge for goodwill impairment relating to our Faster business unit, resulting from the uncertainty of our end markets in this COVID-19 environment.

Despite lower revenue in the quarter, operational profitability remained relatively comparable with the prior year, with consolidated adjusted EBITDA margin at 23.5% versus 23.7% last year. In dollars, our adjusted EBITDA was down only 12% on the 12% reduction in consolidated sales.

Non-GAAP cash earnings per share were \$0.56 compared to \$0.63 in last year's first quarter, an 11% decline. Again, solid performance on a 12% reduction in sales.

The adjustments to arrive at non-GAAP cash earnings consist primarily of the goodwill impairment charge in this year's quarter, and amortization of intangible assets in both years as well as some other nonrecurring items and the tax impact of these adjustments. These are shown in the reconciliation tables in the back of the slide deck and release.

Please turn to **Slide 7** for a review of our Hydraulics segment first quarter operating results. Consistent with prior periods, I want to point out that acquisition-related costs, including amortization and the goodwill impairment charge, are not included in our operating segment numbers. They are accumulated in our Corporate and Other segment reported in the tables in the back of our earnings release and slides.

Sales for the Hydraulics segment declined 9%, excluding currency, which had a \$2 million unfavorable impact. The COVID-19 pandemic reduced sales by approximately \$5 million in the quarter. From a geographic perspective, excluding the effects of currency, we saw 3% year-over-year growth for the quarter in the APAC region, which was offset by a 10% decline in the Americas and an 18% decline in the EMEA market. The primary drivers for the decline in the Americas and EMEA regions were softer end market demand and the impact of regulatory mandates associated with COVID 19.

Due to the lower sales volume, gross profit declined 7% for the quarter, but gross margin grew by 160 basis points. The gross margin expanded as improved productivity and cost management efforts more than offset unfavorable foreign currency and the government-mandated closure of the facility in Italy due to COVID-19.

Hydraulics segment operating income decreased \$2.3 million due to lower revenue in the quarter. However, cost management efforts drove a \$600,000 reduction in SEA expenses which, together with the gross margin expansion, resulted in a 30 basis point increase in operating margin to 20.7% in the quarter.

Please turn to **Slide 8** for a review of our Electronics segment first quarter operation results. Revenue was down 16% compared with the first quarter of last year. The decrease was due to continued softer demand in the recreational and oil and gas end markets as well as the impact of the customer contracts that we renegotiated last year. Foreign currency and the COVID-19 pandemic had a minimal impact on electronic sales this quarter.

First quarter gross margin improved 180 basis points to 47.5%, reflecting continued cost management efforts and a nonrecurring benefit from the release of contractual obligations. Due to the lower revenue, operating margin in the first quarter of 2020 was 18.7% of sales, compared with 21.4% in the first quarter of 2019.

Please turn to **Slide 9** for a review of our cash flow and capitalization. In the first quarter of 2020, we generated over \$15 million of net cash from operating activities and over \$12 million of free cash flow, up from \$11 million of free cash flow in the first quarter of 2019. Our CapEx for the quarter was \$2.9 million, down from \$8.8 million in the same period of 2019 due to a conscious reduction in light of reduced end market demand in the COVID-19 pandemic. Due to the current economic conditions and uncertainty of future cash flows, capital expenditure projects are being evaluated and several have been reprioritized and deferred. We are currently only proceeding with high priority and critical projects.

Regarding capitalization in the first quarter, we reduced our gross debt by \$6 million and our net debt by over \$11 million. At the end of the first quarter, our net debt to adjusted EBITDA remained at 2.1x, consistent with year-end 2019.

We continue to have ample liquidity. At the end of the quarter, we had over \$195 million available on our revolving credit facility. We also have a \$200 million accordion, which is subject to certain pro forma compliance requirements. Our scenario analyses consider the impact on cash flows, and we believe that we have sufficient liquidity to cover our operating cash needs for at least the next 12 months. These analyses also indicate that we maintain compliance with the covenants under our credit facility and remain cash flow positive for the year under all scenarios.

Please turn to **Slide 10** for our conclusion before we open the lines for Q&A. While we are faced with significant near-term uncertainty, which may require adjustments to the timing of some of our investments, we remain committed to our Vision 2025 strategy. Our goal is to achieve global technology leadership in the industrial goods sector by exceeding \$1 billion in sales while maintaining superior profitability and financial strength. We have confidence in the abilities of our operating unit presidents to lead their businesses through this economic downturn and drive long-term organic growth. We are fortunate to have well-respected brands, a dedicated global employee base and ample liquidity. Leveraging this solid foundation, we believe that we will emerge as an even stronger Helios organization.

Now let's open the lines for Q&A.

**Operator:** [Operator Instructions] Our first question comes from the line of Brian Drab with William Blair.

**Brian Drab:** Trish, can you just rewind 30 seconds and talk about that scenario where you said we have ample liquidity or ample cash for the next 12 months. What was that scenario?

**Tricia L. Fulton:** Yes, we expect cash flow to be positive for the year. How that plays out throughout the year in the quarters is still a little open, but each quarter, we still expect to be cash flow positive in all of our scenarios.

**Brian Drab:** Okay. So you weren't highlighting some scenario like a really worst-case scenario in which you would run out of cash in 12 months?

**Tricia L. Fulton:** No, that's just to show that, for the next 12 months under all of our various scenario analyses, we have ample liquidity. That's also in the Q and was a requirement to be included in the Q.

**Brian Drab:** Okay. I just wanted to clarify that. I know the backlog has been very supportive of the revenue here throughout the year, and you said some of it was pushed into the back half of the second quarter. Can you update us on what that level of backlog is now relative to where it was beginning the quarter and beginning the year and how much should that support revenue throughout the back half of 2020?

**Tricia L. Fulton:** Our overall backlog is still very consistent at the end of April with what we were seeing at the beginning of the year. Overall, the backlog hasn't changed significantly. We do still have significant past due backlog in the CVT business that we've said before and still believe it will carry us through most of Q2 from a shipment perspective. However, we have seen a little bit of the backlog shift out of Q2 and into Q3 and Q4 from some of the OEM shutdowns that have happened mostly in April.

**Brian Drab:** Okay. Is there any way you can say like how much backlog there is in that business relative to revenue expectations or you're not giving any guidance, sorry, I'm just curious, is that sustained revenue potentially around these levels or is it only a fraction of the revenue that you've been running at that run rate?

**Tricia L. Fulton:** The run rates on the backlog have remained pretty consistent, and we've been happy with that. It's just a little bit of a shift in when those need to be delivered, but the backlog has held up pretty well through this. It's really just the movement between the months. We've had some cancellations, as we noted in the prepared remarks, but they've been pretty minimal at this point. As you know, we get changing information every day from customers, from OEMs and from the distribution network, so we're having to adapt almost daily to changes that we're seeing come through. Overall, it's holding up pretty well from a backlog perspective.

**Brian Drab:** Okay. One last one on the Electronics side, is there any change in the programs and platform opportunities that you have going into 2021, any conversations around those being delayed or pushed out, or is 2021 still expected to be a good growth year for Electronics?

**Tricia L. Fulton:** 2021 programs are still holding up. We haven't really seen any changes at all in those programs. We have seen some of the 2020 rollouts extend by one month at this point, which is pretty much reflective of how long the OEMs were shut down, but no changes to 2021 at this point. So we're happy to hear that.

**Operator:** Our next question comes from the line of Jeff Hammond with KeyBanc Capital Markets.

**Jeff Hammond:** Obviously, no guidance, but if you could give us a sense of what you're seeing from a sales standpoint in April, or in order trends. I think most companies are seeing April is maybe the worst, and I know some of your peers have been talking about orders or sales in the decline magnitude of 30%, 35%. I'm just trying to understand what you're seeing because it seems like it's holding up better?

**Tricia L. Fulton:** As we haven't done it in the past, we also are not going to give numbers specifically on orders and backlog related to April at this point since we're not giving guidance. We aren't going to talk a lot about the specifics of sales. However, sales and orders did both drop significantly in April, I would say deep into the double digits in both Hydraulics and Electronics segments, with Electronics dropping more than what we saw in Hydraulics. Many of the OEM customers were shut down in the Electronics segment, so orders had to be pushed out to later in the quarter or the year and in some cases, as I stated before, there were smaller amounts of cancellations.

In April, Hydraulics is still supported by backlog, especially in CVT. Shipments were maybe a little bit lower than we expected due to employees being out from COVID-related absences and also the implementation of COVID safety procedures that we put in place in April. Faster also does have some backlog past due that was



created during their shutdown, and they'll be able to ship some of that. However, April was tough for them as well in that regard, but we're able to push it into the back half of Q2.

**Jeff Hammond:** Okay. So it's fair to say that the trend in Electronics is going to be certainly worse in 2Q than 1Q as well as Hydraulics. The decrementals were pretty impressive certainly in Hydraulics and as you see maybe a sharper drop into 2Q, how do you think the decrementals hold up?

**Tricia L. Fulton:** Going back to your first question. I would say, overall, if you're looking at some of our peer reports, our Hydraulics did not drop as much as their overall Hydraulics did in April, based on some of the information that we've read that came out last week. I just wanted to point that out before we move on.

With regard to decrementals, in our scenario planning, which consists primarily of scenarios that are down both 15% and 25% on annual sales drops, which aren't indicative necessarily of what we're seeing, but we wanted to model those out, the decrementals are probably a little bit higher than what some of the peers have come out with. We're looking in the range of 40% to 45% at the adjusted operating income line. We will pull out all of the costs that we can to protect the decrementals. But certainly, we also want to make sure that we are prepared to return when the economy rebounds.

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

**Mig Dobre:** You outlined considerable amount of measures on Slide 5 and I'm wondering as you look at everything that you have listed there, what is the net impact on the Company from a dollar standpoint?

**Tricia L. Fulton:** It's a little bit difficult to tell for the full year what the impact will be because there are so many options on there and we aren't exactly sure which ones of those we'll need to trigger or when. Certainly in Q2, we're looking at somewhere around a \$4 million impact from the steps that we have already taken in Q2. Those can continue throughout the rest of the year, but there are additional steps listed there that will further drop our overall cost structure, at least on a temporary basis, and most of these are temporary. There are very few that are a permanent change for us, but we are able, on a temporary basis, to control the costs pretty well.

**Mig Dobre:** Okay. If we're looking at a continued challenging environment beyond Q2, and looking at this \$4 million savings figure, is the right way to think about it that we can run rate these savings into the second half or are we likely to see additional actions on top of the \$4 million as you adjust down the line?

**Tricia L. Fulton:** The \$4 million doesn't necessarily run rate into Q3 and Q4 because some of those were onetime pops that aren't necessarily repeating costs. The overall cost for the year is something less than the run rate of that \$4 million. If we implement only the items that have been put in place so far, it's probably closer to maybe something like \$10 million to \$10.5 million for Q2-Q4. But if we implement additional steps, we certainly have additional savings that we can take. Probably the largest pop out of that list comes from furlough programs that we could implement, where we could have rolling furloughs for employees if we see a decline in demand that would allow employees to collect unemployment or get supplemental income from the government in addition to the wages we would pay them for reduced hours.

**Mig Dobre:** I see. Okay. Relative to your comment versus peers that have reported and how your Hydraulics business has trended, when you look at the historical relationship of your business versus your larger peers, what is it that you would call out maybe in April that felt a little bit different that maybe helped your business perform a little bit better than peers?

**Tricia L. Fulton:** Through a lot of April, we still were getting pretty strong demand on the distributor side, even though the OEMs were shut down and kind of in flux. I think that we got a little bit of a pop there, but also, our ability to continue to ship out of our past due backlog has carried us. Certainly, you don't always want past due backlog because that means you're not delivering something to a customer at the time that they want it, but we had such high demand throughout 2019 that we went into the year with past due. I think that we now have

the ability to wind that down through Q2 and get that product out to customers, but it certainly supported our sales in Q1.

**Mig Dobre:** I appreciate that and I think Brian was trying to understand the dynamic earlier on the call, given that it's hard for us to appreciate how backlog really plays into your revenue and financials for the rest of the year. What I'm wondering here, and this is my final question, when we're talking to OEM customers and even some of your peers, there is a broad recognition of the fact that the challenge is not just from the fact that certain operations have been shut down because of COVID, that clearly has been the case, the broader challenge is that we're in a recession and production schedules have to be adjusted and demand has to be adjusted to reflect that economic reality. So as you think about how you're managing your business and you're sort of managing the cost structure, I'm wondering if you're internalizing that reality as well or if you're looking at this as being more shutdown-driven with a quicker path to recovery in the back half of the year and if that's the case, why are you maybe thinking different than some of the other folks out there?

**Tricia L. Fulton:** Clearly, we have a lot of information that's flowing at us at a pretty rapid pace and it's difficult sometimes to tell exactly which scenario we should be considering at that point. We try to consider all of the scenarios to play it out for a V-shaped recovery, a U-shaped recovery and L-shaped recovery and understand what our triggers are from a cost perspective and when we would need to pull those. I would say all three of the businesses are really running at different paces right now and have to take different steps to mitigate any changes in the order books that we're seeing. I also think that there's probably some order book changes that have not been reflected in what we're seeing in our backlog yet and that may just be in the form of small delays. It may be that they're trying to figure out their end markets before they adjust their build schedules. I think we have a couple more weeks probably ahead of us before we can see more clearly what's coming at us, especially from the OEMs that just came back to work this week in Europe primarily, but we also have had some of our recreational end market OEMs that have been off for quite a while as well.

We're still trying to get through all of those discussions and understand where we are, but honestly, there's some good news out there that we're hearing that's counteracting some of what the macroeconomic negative news has been. We're getting anecdotal information back from some of our OEMs that they brought build schedules down a couple of weeks ago and then this week, they're bringing them back up. So, it takes some time for us to figure out what each of those customer bases are doing and what they are projecting for the rest of the year as well. That's why we are unable to give guidance at this point.

**Operator:** Our next question comes from the line of Jim Sheehan with SunTrust.

**Jim Sheehan:** What kind of working capital release might you realize this year and in which quarter might that occur in your scenarios?

**Tricia L. Fulton:** From a working capital perspective, when we looked at our scenario planning and cash flow specifically, we were relatively conservative and expect that we will see working capital increases throughout Q2 and possibly into Q3 with some better results then in Q4 as we're able to wear through some of that. Overall, I think we were conservative in the way we looked at working capital, but even with that, we still have positive cash flow for the business.

**Jim Sheehan:** Could you describe your rationale for taking the goodwill impairment in the quarter for Faster? Was that really necessary and are you effectively saying that the business is impaired longer term?

**Tricia L. Fulton:** Let me take a step back. We do our goodwill impairment analysis in Q3 of each year, so we did it in Q3 of '19, and we had provided a forecast on at least the part of the model that looks at DCF to the auditors. When we went back and updated that or started speaking with them about how that forecast looked relative to COVID, we did need to make some changes specifically to 2020 and potentially to 2021 because we did multiple scenarios for this to 2021. So yes, it was necessary to take the impairment this quarter because it did show that under the scenario planning that we're doing relative to COVID, that there was an impairment

of that goodwill based on primarily the near term. The long-term goals, as we stated for Vision 2025, haven't changed by business and it hasn't changed overall, but certainly, the COVID effects on a short-term basis did impact that analysis.

**Jim Sheehan:** Very helpful. On your debt covenants, could you give some more color on that? What EBITDA level would trip a covenant and what levers can you pull to stay cash positive if the downturn is actually longer than 12 months?

**Tricia L. Fulton:** We have two covenants, interest coverage, which, honestly, we're not even close to and our net debt to adjusted EBITDA to not exceed 3.5x. In our scenario planning, we have verified that we don't trip those covenants even in our deeper downside scenario. From a cash preservation perspective, we've cut back on noncritical CapEx at this point. Some of the bigger triggers are what I was mentioning to Mig in the furlough programs, if we start to see that we have a decline in demand, we are able to preserve cash through a program like that, but also keep our employees relatively whole from their cash perspective as well. That's equally as important to us to make sure that they're there as well. We're somewhere probably around an \$80 million EBITDA trigger on the net debt-to-EBITDA ratio.

**Operator:** Our next question comes from the line of Jon Braatz with Kansas City Capital.

**Jon Braatz:** Tricia, on an earlier question, you talked about the 2021, 2020 prospects for the Electronics segment and things still look pretty good. Yet, you mentioned there were some permanent layoffs at Electronics and I don't think there are permanent layoffs at the Hydraulics segment. Why the permanent layoffs at Electronics?

**Tricia L. Fulton:** As I mentioned when we were talking about April, April was a tough month for the Electronics segment and, in looking at our different scenario planning options, there were things like the furloughs, there were things like permanent layoffs, there were salary cuts. The Enovation management team, I think, did a very good job in assessing what their best options were going forward, and they determined that a permanent layoff as well as temporary salary reductions that are implemented for May and June were the best way for them to go for the business going forward. They went ahead and moved forward with that. We do still have the option of furloughs if we see business continue to decline in Electronics, but at this point, we don't believe that's probably going to be necessary with the current order book that we have.

**Jon Braatz:** Okay. There is some oil and gas exposure, but how much of their business is exposed to that area?

**Tricia L. Fulton:** We actually saw oil and gas affect their business last year as well, and it probably will continue to have an impact given what's going on in the oil and gas space right now. In total, it's 15% of their overall business (Electronics segment).

**Operator:** Our next question comes from the line of Nathan Jones with Stifel.

**Adam Farley:** This is Adam Farley on for Nathan. A quick housekeeping question. Could you quantify the one-time benefit in the Electronics segment?

**Tricia L. Fulton:** I assume you're referring to the gross margin comments that we made. It's about \$860,000 additional gross profit in Q1. Even with that, our gross margins were still at 45.5% versus 45.7%. Even without that, we were able to generate very strong margins, but it was on a last time buy related to the customer that we released the contractual obligations with in Q1 last year.

**Adam Farley:** Okay. That's helpful. Turning to the supply chain, I know you mentioned you haven't seen very much disruption, but are you having any difficulty sourcing components? Are you building any inventory? Any color there would be helpful.



**Tricia L. Fulton:** We have built a little bit of inventory from a component perspective in Electronics. At the end of Q1 and into Q2, we started buying some Electronics components that we thought might go scarce a little bit. We have added inventory in that business as a result of that, that will wear off over a couple of quarters. We wanted to get ahead of that, so that's really the only space that we've had to specifically buy inventory ahead based on potential scarcity.

**Operator:** Our final question this morning comes from the line of Joe Mondillo with Sidoti & Company.

**Joe Mondillo:** My first question is related to the consolidation down in your Sarasota facility last year. I'm just wondering when do we anniversary that? It seemed like a pretty big driver to the margins in the first quarter. So I'm just curious of when does that year-over-year comp get maybe a little tougher because you don't see the year-over-year benefits due to the productivity improvements related to that?

**Tricia L. Fulton:** I have to preface that with under normal conditions, because certainly, we aren't in normal conditions. I expect that we probably would have seen tougher comps even in Q2 if COVID had not hit because we started to see some improvements in Q2 last year, but we saw the majority of them in Q4 and then again in Q1. The good news is that once the business does come back and come out of COVID, which I'm sure we all will, that we will still have those productivity improvements in place and be able to take full advantage of them. They also help us in a downturn, making sure that we are more effective and productive, even when we start to see throughput go down a bit as we work through the issues with COVID.

**Joe Mondillo:** Okay. Just a follow-up with a question that Jeff asked earlier regarding the decrements. You said 40% to 45%; is that for the year where you're referring to or was that just the second quarter? In the last call, you sort of talked about 30% to 40% for Hydraulics and 20% for Electronics, so could you just clarify the expectations for decrements there?

**Tricia L. Fulton:** The 40% to 45% decrements is for the remainder of the year, Q2 to Q4. We clearly had better decrements in Q1, so for the year, it will be something less than that. The Hydraulics side is much closer to the 40% of that with Electronics being closer to the 45% of that. Some of that's driven by the fact that, as we mentioned on the call in February, we're making some incremental investments in the Electronics business relative to engineering and R&D resources and while in our scenario planning, we have cut those a bit, we've left the majority of those costs in. Some of them have occurred already because we've already hired the resources, but we don't want to put the '21 rollouts at jeopardy. Some of the reason that Electronics has higher decrements is that we have left in some of those incremental step costs that we planned for the year.

**Joe Mondillo:** Okay. Regarding your APAC geographic region, could you just help us understand what's driving that business so well? How is that holding up so well? I mean down 1%, just given that this whole overall region seemed to be the biggest hit in terms of COVID in the first quarter. I was surprised to see that it was just down 1%.

**Tricia L. Fulton:** Definitely. China and Australia are the primary drivers of what's pushing our APAC region. We're still seeing strong demand in the mining end markets in Australia. In China, it's really being driven by us taking new business. Still, we've been talking about that for a while, but we have some very strong distributors in the China region that are taking on a lot of new business, and that's really what's driving our China growth. It's for applications like alternative energy, windmills and things like that, that are being driven by government initiatives in China as well.

**Operator:** Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Fulton for any final comments.

**Tricia L. Fulton:** Thank you for your interest in Helios Technologies and for your participation this morning. Also thank you to all of the hard-working Helios employees who are driving these results. We look forward to

updating all of you on our second quarter results in August. Thank you very much. Have a great day and stay healthy.

**Operator:** Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.