

Operator: Greetings, and welcome to Helios Technologies Fourth Quarter and Full Year 2020 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Tania Almond, Vice President of Investor Relations and Corporate Communications. Thank you. You may begin.

Tania Almond: Thank you, operator, and good morning, everyone. Welcome to the Helios Technologies Fourth Quarter and Full Year 2020 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, updating you on our recent acquisitions and the Helios Center of Engineering Excellence, provide our outlook for 2021; and then, we will open the call to your questions.

Please note, you can find full year 2020 information in the supplemental section of the presentation. 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's now my pleasure to turn the call over to Josef.

Josef Matosevic: Thank you, Tania, and good morning, everyone. Please turn to Slide 3, and I will summarize our highlights for Q4. 2020 was certainly a year that will not be forgotten. It was full of great accomplishments even as we faced the challenges of the global pandemic head-on. The Helios team pulled together and drove results that exceeded the plans we put in place in the second half of the year. We protected our employees and communities, supported our customers, kept all operations running and executed on projects according to plan.

We acquired a transformational health and wellness electronics company in November. Balboa is diversifying our offerings and our end markets. It also brings technologies that we can further leverage to create new growth opportunities. Importantly, we ended the year on a strong note. We delivered solid financial results. All of our businesses exceeded our expectations in both revenue and profitability. There is a strong demand across a number of our end markets, especially in ag, marine and health and wellness.

We also demonstrated robust cash generation in 2020. We generated approximately \$32 million of cash from operations in the quarter and nearly \$109 million for the full year, and we started to execute on our flywheel acquisition strategy in 2021. We established a Helios Center of Engineering Excellence and added a group of highly talented professionals from BJN Technologies with core experiences in the engineering disciplines of electrical and software systems, simulation, embedded circuitry and mechanical and testing design.

We are strengthening our ability to innovate. We believe Helios engineering will enable faster integration of technologies for our customers. They will leverage talent and know-how across the organization. This new structure will open up opportunities to drive better process, speed to market, system sales where appropriate, diversified markets and take the best ideas from each segment to create good, better, best product offerings.

As I mentioned when we closed the Balboa deal, we are receiving very good feedback from some existing and potential new customers around areas for product development, enabling us to innovate together. We have already won our first diversified market customer with product offerings in the Hydraulics segment, and

over time, expanding into the Electronics segment, and we continue to have discussions to pursue additional opportunities with new customers. We are excited the marketplace is recognizing the value we can create for them.

Please turn to Slide 4. In fact, just yesterday, we announced that we received the John Deere Supplier Innovation Award for 2020 for our multiconnection couplings with integrated valve systems. This is a tremendous honor for Helios to receive around our vision and progress in smart hydraulics. Our subsidiaries, Faster and Sun, worked together to combine the advantages and features of MultiFaster and Sun electrohydraulic cartridge valves into an integrated manifold, reducing complexity and increasing reliability of the hydraulic circuit. This type of engineering collaboration is exactly the vision Helios has for the cross-pollination of R&D between our subsidiaries.

On Slides 5 and 6, I will touch on some financial highlights on the quarter, then Tricia will go into more detail during her prepared remarks. As I noted, our results exceeded our expectations. Fourth quarter net sales grew to nearly \$152 million, and Balboa, which has been part of the Helios for about 2 months, exceeded our expectations as well. Our adjusted EBITDA margin held steady at 23.2% compared with last year. Non-GAAP cash EPS of \$0.60, or 11% annual growth, reflects the better-than-expected performance of both segments, including Balboa. All in all, a very solid performance by the entire company, and we are very pleased.

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 morning, everyone. On Slides 7 and 8, I will review our fourth quarter consolidated results. As Josef noted, we delivered significant growth in the fourth quarter, supported by our focus on delivery, our expanding sales channels, strong end markets and, of course, the addition of Balboa. Net sales grew 24% sequentially and 20% over the prior year period as we executed our growth plan. Fourth quarter gross profit of \$52.7 million increased \$5.8 million, or 12%, compared with the trailing quarter and \$5.3 million, or 11%, over the prior year period from higher volume. Cost of goods sold in the quarter included \$1.9 million of inventory step-up amortization related to the Balboa acquisition.

While consolidated organic volume was higher than the third quarter, gross profit was also affected by the mix of products sold, Balboa's gross margin profile and the impact on operations from increasing freight costs. We are working to offset the impact of these items with cost containment, adding shifts to reduce overtime and working on our global supply chain efficiency programs.

Gross margin was 34.8%, which reflects the 120-basis point impact on gross margin of the inventory step-up. I should also point out that, although Balboa's business has lower gross margins, they have a lower SEA expense structure, so that allows Balboa to still deliver performance within our target operating margins. In fact, Balboa well exceeded our greater than 20% target operating margins in its first 2 months, given the high volume they have been producing to meet accelerated demand.

Even with changes in mix, adjusted EBITDA margin held steady at 23.2% compared with the same period a year ago and was down just 20 basis points compared with the trailing quarter, reflecting our cost-management efforts, productivity improvements and the contributions of Balboa. Non-GAAP cash EPS improved \$0.07 to \$0.60 for the fourth quarter compared with the trailing quarter and was up \$0.06 compared with the prior year period, reflecting better-than-expected performance of the Balboa acquisition.

I should point out that our effective tax rate in the fourth quarter was 22.4% compared with 18.1% in the prior year period. The Q4 2019 rate reflected the impact of favorable tax incentives, while the Q4 2020 rate was impacted by onetime nondeductible costs incurred during the Balboa acquisition. For full year, the effective tax rate was 17.6% and included certain onetime benefits in the second quarter of 2020 that reduced the full year effective tax rate. In 2019, our effective tax rate was 20%.

Please turn to Slide 9 for a review of our Hydraulics segment fourth quarter operating results. After the consolidation of our Sarasota operation was completed, our CVT business returned to the industry-leading delivery levels that our customers value. We are also increasing the amount of product being produced in China to help improve delivery schedules as well as supporting our In the Region, For the Region strategy.

In Italy, our QRC business had its highest ever sales quarter, and we are growing that business through a combination of new products and from strong demand in the construction and agricultural end markets. Combined, these efforts delivered solid Hydraulics sales of \$103 million, up 5% sequentially and in line with the prior year period, despite the COVID-induced recession in some end markets. Foreign currency exchange rates provided a positive \$3.7 million impact on sales.

By region, Hydraulics had growth in both EMEA and APAC, reflecting end-market growth. QRC had its strongest year ever in APAC, driven by China. Sales in the Americas were down due to softer end-market demand, but with strength in certain pockets. Q4 Hydraulics gross profit and margin benefited from several factors. The factors include higher sales, a favorable change in sales mix, the effectiveness of the factory consolidation of the CVT facility in Florida and savings from cost-containment efforts. Operating margin of 19% compared with 19.8% last year reflects increased investment in R&D spend to drive future growth and corporate costs allocated to the segment.

Please turn to Slide 10 for a review of our Electronics segment fourth quarter operating results. As we said earlier, Balboa exceeded our expectations and was a significant contributor to our Electronics segment sales for the fourth quarter. We could not be more excited by the potential this acquisition brings. Of the \$48.5 million in total Electronics sales, Balboa contributed \$26 million, or 54%. And while still down from pre-COVID levels, mostly as a result of the change in customer base, demand from the marine market continued to grow. Sales also reflect the intentional shift in customer base, which involves releasing certain contractual obligations, enabling broader market penetration, and had a nearly \$10 million impact on revenue for the year.

Electronics segment gross profit of \$17 million in Q4 increased with the acquisition. Electronics gross margin was 35%. This reflects the impact of mix, the \$1.9 million in inventory step-up expense, as well as the different margin profile of the Balboa acquisition. Operating income for the Electronics segment of \$9 million nearly doubled over the trailing quarter and was 3x greater than the prior year period. Operating margin improved for the same reason. The 2019 fourth quarter margin was impacted due to lower revenue in that period as well as the impact from renegotiated customer contracts.

Please turn to Slide 11 for a review of our cash flow. Cash generation of nearly \$109 million in 2020 was outstanding. This demonstrated our agile response to preserve and generate cash as well as our intent to improve our working capital management in general. Our objective is to drive strong cash generation to fund organic growth, delever our balance sheet, support our flywheel acquisition strategy and continue our long history of dividend payments.

Given the pandemic situation, our CapEx in 2020 was focused on high-priority and critical projects. For the year, CapEx of \$14.6 million represented about 3% of sales. We expect to return to our more normalized capital investment level of approximately 5% of sales going forward. Free cash flow increased to \$94 million in 2020, equating to a free cash flow conversion rate over 200%, providing us with a significant financial flexibility to further pursue our flywheel acquisition strategy.

Regarding our capital structure on Slide 12. As you can see, we utilized debt and increased leverage to make the Balboa acquisition, but it's important to note that we used our strong cash generation to beat our expectations to end the year with a pro forma net debt to adjusted EBITDA leverage ratio of 3x, better than the expected 3.4x. Total debt increased to \$462 million at year-end, reflecting net debt repayment of \$48 million throughout the year and additional borrowings of \$200 million for the acquisition. At year-end, we had \$144 million available on our revolving line of credit.

Our financial strategy is to increase leverage for disciplined acquisitions and then generate the cash to quickly pay that down to be positioned to continue to add new products, technologies and markets to our portfolio. We may consider using the equity markets where it makes sense to do so to support our growth plans. Importantly, we have been a consistent dividend payer over the last 24 years. We recently paid our 97th sequential quarterly cash dividend on January 20 of this year.

Now let's turn to Slide 13, and I will discuss our outlook for 2021. Helios is optimally positioned to drive growth with end market and product diversification. Additionally, we see end-market demand strengthening

with the increased visibility in 2021 over last year. Our guidance for 2021 assumes constant currency rates as well as the assumption that our markets will continue to recover from the global pandemic.

We believe we are on track to deliver revenue for 2021 in the range of \$675 million to \$705 million, which implies a growth rate of approximately 29% to 35%. We believe in that revenue range we can achieve adjusted EBITDA margin between 23% to 24%, demonstrating our commitment to our financial targets. Interest expense at current borrowing levels and rates should be between \$16 million to \$18 million. The effective tax rate for 2021 is expected to be in the range of 24% to 26%. For your modeling purposes, depreciation is expected to be about \$22 million to \$24 million, and amortization will be approximately \$30 million to \$31 million. This will net to non-GAAP cash EPS between \$2.75 to \$3.10 per share, or 23% to 38% annual growth. We have a strong pipeline of new project rollouts and improving visibility in many of our markets; therefore, we are confident in our ability to execute.

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

Josef Matosevic: Thank you, Tricia. We are confident as we enter 2021 that we can drive growth and deliver strong margins. Our \$1 billion revenue goal is not the end game, but rather a milestone. We have our sights focused beyond that. As a management team, we have recently defined the Helios purpose statement, and we are implementing four value streams to augment our strategy. 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 are: number one, protect the business and ensure the cash flywheel continues to spin. We plan to drive the cash flow engine through new product launches while we leverage existing products. We will cultivate customer-centricity and are investing in expanding capacity as well as productivity improvements, and we'll continue to execute on our newly developed global manufacturing and operating strategy that will drive improved margin.

Number two, champion a global operating mindset to better leverage our assets, accelerate innovation and diversify our end markets.

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

And finally, number four, develop our talent through a culture of customer-centricity, continuous improvement and embracing diversity, engaging the team, focusing on shared deeply rooted values and promoting a learning organization. These four value streams are interlaced with our flywheel acquisition strategy as well as our Helios shared corporate values. We plan to provide more detail on all of this at our upcoming Investor Day that we will host later this year.

All of this makes the year ahead very exciting, and we are just getting started. We are excited about the many changes we are implementing to drive growth, profitability and shareholder value at Helios. I have great confidence in the ability of the Helios team to continue to lead successfully and believe it will show in our results.

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

Operator: [Operator Instructions] Our first question comes from the line of Nathan Jones with Stifel.

Nathan Jones: I'd like to start off talking a little bit about this John Deere Supplier Innovation Award and what that means to the company. I know that when Helios acquired Faster and acquired Enovation Controls, a big part of the thesis there was revenue synergies you were going to be able to generate by coming up with products that look specifically like that supplier award that you've got there. And I know, Josef, that you had said that was something that you thought you could accelerate over the next few years here. It is a big contributor to the 2025 goals. Can you talk about where you are in that process, what kind of revenue you're

generating out of putting those businesses together and what you think it can add to growth over the next several years?

Josef Matosevic: Yes. Certainly, Nathan. I will start and Tricia can chime in as appropriate. So look, this John Deere award, when you step back and look at the long-lasting relationship Faster had with John Deere, you really screen for understanding a little bit more about John Deere's strategy and what it is they're really after. One of the key indicators was they are also, like many other OEMs, trying to simplify their supply chain versus having supplies coming in from gazillions of sources and having to manage that. We pitched an idea of integrating and combining Faster products with our CVT and some products and we presented that, and it was just a good system solution for them to reduce a lot of complexity, to reduce supply chain cost and integration cost, and it worked out pretty much how we planned it would.

But on a more strategic level, Nathan, is when you step back and listen to seeds we planted over the last couple of calls. We have three different strategic objectives in terms of growing revenue into diversified markets. One, if we take Balboa for an example, they're traditionally sold into the wellness market and laser-focused on hot tubs, swim spas and exercise spas. That product line really fits well in other industrial niche sectors that create a potential additional revenue stream, and that holds true for all the segments. Enovation, for an example, largely a recreational supply-chain-driven customer here, and we will expand those product lines in other niche markets and protect the margins. But then, as we combine the strength of the entire company, that's where we see equal grade opportunities to really get in as a system solution provider, where appropriate, and start increasing the penetration of new customers and new markets that we traditionally never participated in. So, those are the three different channels of diversification of our end markets.

Tricia Fulton: I think I would just add on that this is really a perfect example of a couple of things. One being the synergies that we saw when we acquired Faster and how we could bring together CVT and QRC, but also what we've been describing more recently as diversified end markets. This is an application that isn't a traditional application, so I think it's been a really good eye-opening experience for us to see what the opportunities are for us going forward and how we can bring these two, technologies together for a good customer win.

Nathan Jones: Maybe when you think about the revenue synergy opportunity from putting all of these businesses together all the way through Balboa, is there a quantification you can give us on what you think that can drive in terms of market outgrowth over the next several years? Just assuming market growth is going to be whatever it is, what do you think you should be able to outgrow the markets by?

Josef Matosevic: Yes. I think, Nathan, we hinted in our prepared remarks that we have our sights set on something much larger over the years that we originally outlined, but I think it's still a little bit early to quantify that. We certainly will provide more color in our Investor Day, the targeted customers by business segment and territory. But, for an example, maybe what could help you understand this a little better is, if you look at the Balboa acquisition, Nathan, and couple it with our Enovation segment, that technology can be readily available for other industrial markets, if it's the HVAC market or even if it's the commercial foodservice market or exercise in-home equipment, with some really minor investments needed, and that drove the BJN acquisition that will help us integrate those two pieces of technologies and get us to the market very fast.

We have targeted our top 3 customers, and one of them is pretty much in a prototype testing phase as we speak. So, it's still a little too early to outline the full opportunity, but clearly, there is a great path for us to penetrate the technology into the new diversified markets, which are truly new markets for us.

Nathan Jones: I'm sure we'll hear a lot more about that at the Investor Day, so I'll look forward to that. Now I'll pass it on. Thank you.

Josef Matosevic: We look forward to seeing you.

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

Mig Dobre: I'd like to stick with Nathan's line of questioning here, and, I guess, I'm thinking of the strategy that you laid out even before you joined, Josef. As I always understood it, it was this evolution from being a relatively narrow hydraulic component supplier to migrating more and more towards system sales. The idea

was that you're not only going to have a more comprehensive hydraulic product, but that you'll be able to have the electronic portion of it to essentially move from within the vehicle to actually in the cab, as it were, in terms of displays, controls and things of that sort. So, it strikes me that the hydraulic side of the business is where you have had several years' worth of investment in product development, and it seems like it's manifesting itself at Faster.

But I'm kind of curious as to the Enovation aspect and how that is tying in with the hydraulic product, because, per your comments, it sounds like you're finally starting to see some breakthroughs here with customers that are buying hydraulic product, but they're looking to migrate some of your electronics offering on the platform as well. So, can you give us some context here? And maybe the follow-up to this is, you're going to start bumping up into larger competitors that essentially employ this strategy. Are you able to handle those competitive dynamics? How is the market handling you becoming a broader player as it were?

Josef Matosevic: Mig, thanks for the question. I think you answered the question for me as you outlined our strategy here, but clearly, we are integrating our electrification into the hydraulics sector as well. One interesting thing that we heard as we started engaging with our customers more closely and did a customer study is, we are truly being considered a pure-play company, meaning we have an Electronics division, we have a Hydraulics division and that's what we invest in, that's what we are focusing on. Every competitor we have will, over time, just make us strong and a better company because we can learn, but they also have many other things going on in their own portfolios that may not allow them to be as agile, as laser-focused in investing in the areas like we do. So, the electrification components into a system cell is starting to get very interesting for us, and we're investing in this area.

I'm sorry, Mig, what your second question?

Mig Dobre: I was trying to understand where you are in terms of progress. Can you credibly walk into an OEM, someone like Oshkosh-JLG or John Deere, and say, "Hey, look, I have a full solution, it's developed, and I want to get on the next platform"? Do you have that capability today?

Josef Matosevic: In many areas, we have the system capability to support them over the next 12 to 24 months. What we do not have is their innovation pipeline also calls out for adjustments and for electrification in certain areas. That's what drove the acquisition of BJN and that's what drove that augmented strategy on combining our Electronics segment to our Hydraulics segment and being ready with new products to deliver and to answer that bell, Mig, as our customers switch over to the new modeling in 2023, 2024 and 2025. So, are we ready with current demand and needs? Yes. Will we be ready as the customer switches over the next 12 to 24 months? Also, yes.

Mig Dobre: Okay. Then, I guess to shift gears here a little bit, Trish, I'm trying to better understand the moving pieces of your outlook. If I look at the top line, I think the midpoint bakes in something like 32% growth. Can you help us understand how much of this is coming from Balboa? My math is something like 22% from this acquisition alone. How do we think about core growth for Electronics and Hydraulics that's baked into this outlook?

Tricia Fulton: Yes, Mig, we suspended guidance back in March of 2020, and this is really our first reintroduction of guidance coming out of COVID. We think it's prudent to provide overall Helios guidance at this time and not at the segment level per se. I think you can get a good feel for the numbers that we gave you for the first couple of months that we've owned Balboa of what their capabilities are going forward, but we aren't going to provide individual guidance at the segment level at this time. We want to wait a little bit as we're continuing to come out of COVID. We feel really good about 2021 across a lot of our businesses and end markets, but I don't know that we're prepared to tie ourselves down to something specific at this point from a growth perspective at the segment level or the end market level.

Mig Dobre: Well, then I guess my follow-up and maybe last question is on Electronics, leaving Balboa to the side. It seems to me like you're pretty optimistic on the vehicle technologies portion of the business. Marine is doing well, although I'd like a little more color on some of these supply chain disruptions that you called out and how you think those work themselves through. I'm also wondering what you're seeing in the Power Control side of the business, because that's where you have a lot of industrial stationary applications, off-

highway vehicles. At least, in theory, those end markets should be rebounding pretty strongly in 2021. I'm curious if you see it differently.

Tricia Fulton: Yes. On the Power Control side, which is more the nonvehicle technologies business of Enovation, oil and gas is still challenged for them from an end market perspective, but we're definitely seeing opportunities on the mobile equipment side in that part of the business. Going forward into 2021, there's quite a few opportunities. As you might recall, when we roll out products, that we tend to roll out new product introductions for Enovation in the recreational space; and then, they flow into what we used to call the Power Controls business or the end markets outside of recreational. So, we're starting to see some of that happen, but we do have a lot of recreational rollouts for recreational vehicles coming this year that will trickle down into those other end markets as well. From a supply chain perspective, yes, we do know, just like everybody else, we probably will have some supply chain challenges on the electronic side for both Balboa and Enovation, and we've already started addressing those.

We're doing blanket POs for multiple years to make sure that we're covering our supply. We're buying ahead where we can for certain components that seem to have shortages or that are critical to some of these specific products and rollouts that we have. It's going to be challenging, and it has been challenging, but I think it's something that we feel we have a pretty good grip on at this point. And we're trying to stay ahead of the curve to make sure that we can get product out the door and meet the demand of our customers in 2021, which, on the Electronics side, appears to be very strong.

Operator: Our next question comes from the line of Josh Pokrzywinski with Morgan Stanley.

Josh Pokrzywinski: Just a couple of questions here. To pick up the thread from the last question, Josef, what do you think of as the big markets that are still underearning that you're looking forward to recover? Because I think Hydraulics versus Electronics probably doesn't slice the end markets quite fine enough to see where the real opportunity is.

And then, related to that, anything that could necessarily help those from a stimulus perspective? I'm thinking like an infrastructure bill or something like that, given that you don't necessarily do the bigger equipment in either of those businesses. I'm just trying to calibrate where is the easiest comp and where could the dollars flow from some sort of incentive package that would drive incremental demand.

Josef Matosevic: Yes, certainly, Josh, great question. So look, I think to your first question, the construction side would be my answer to your first question. We are seeing a recovery. It's actually trending in a very nice direction. So, that would be one area that we would continue to watch very closely, and I feel optimistic that it will continue to do what it says it's going to do. In terms of the stimulus, when I look across all of our companies here, we really don't have anything baked into our plans in terms of a potential upside. Like Tricia mentioned earlier, we feel very good, very strongly about 2021. We issued, what we feel is, a very strong narrow guidance here.

If there are additional investments in infrastructure, roads and bridges over time, obviously, this will be an upset for us since we don't have it baked into our plans. As we continue our strategy of system sales where appropriate and protect our margins, that's where I see the biggest opportunity as the infrastructure starts kicking in and the roads and bridges start taking off with the demand of the Terexes of the world, of the Manitowocs of the world. So that's where we can participate, but that would be an upset for us, Josh.

Josh Pokrzywinski: Got it. And then, I guess related to supplier shortages or any sort of bottleneck, is there anything that you can share with us, even anecdotally, on how you feel customer inventories are? I understand it's not your product going through distribution. It's more about maybe finished product for your customers or your inventory at customers. Is there anything that would speak to the health of that supply chain and where customers are catching up on their own backlogs?

Josef Matosevic: Yes, certainly. I'll start, and Tricia will add a little bit more color here. Obviously, we saw that coming and we anticipated, coming out of COVID here, that, as everyone is trying to ramp up, we anticipated a supply chain shortage, if it's national or international. In many cases, Josh, we had a prebuy program. We had some hedging going on. On the Hydraulics side, in particular, with our distribution partners,

they're seeing their inventories coming down, so that will drive an additional element of buying. But, I mean, look, overall, we're going through the same thing that probably everyone else is going through.

Where we have derisked our portfolio is, in particular, on the Hydraulics side. 90% of our supply chain is pretty much located in the Midwest and has been with us for 30-plus years, so that relationship drove some substantial compensation of protecting our manufacturing operations plans globally, and we put ourselves in a pretty good position. Now, if something else happens over time, then, obviously, we will communicate this accordingly, but, as we stand right now, there's a good path for us on meeting the guidance we have issued this morning.

Tricia Fulton: Yes. I would just add one thing, Josh. On the supply chain side, we recently appointed Rick Martich to SVP of Manufacturing and Operations. One of the key things that he is focused on is supply chain optimization. Specifically, on the Electronics side, there has been a lot of work already between Balboa and Enovation, looking at their common suppliers and where we can share products, if needed, and bring together from a cost perspective what we're buying from each of the suppliers. So, we're definitely focused on that, and there has already been a lot of work done. It clearly takes some time to do that, but it seems to be working well from the get-go.

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

Jeff Hammond: So, back on Mig's question on guidance, I understand not wanting to give the segments, but I don't know if there's a way to think about just organic growth within the guide. I know there's some FX help, because the math I'm getting on Balboa is, you did \$26 million on less than 2 months, so that would support pretty high numbers for Balboa. I just don't want to get ahead of my skis on thinking about that growth rate.

Tricia Fulton: Yes. So, if we look at the organic growth piece that we have embedded in the guidance, we're looking at high single-digit growth for the organic, and Balboa had a very strong end to Q4. They definitely are seeing demand remain strong in their end markets. I'm not sure that we're ready yet to extrapolate that 8 weeks into what the full year would look like, but they should have a very strong first half coming out of that, given the backlog that they have.

Jeff Hammond: Okay. So, it sounds like Balboa margins in the fourth quarter were accretive to the overall margin. Is that something that can sustain?

Tricia Fulton: Yes. They were accretive to the profitability. They were accretive to margins. At the EBITDA level, they're at or above what our target is in our guidance. That's also something that we're working on to be able to make sure that they have the capacity and that they're able to generate the margins that we think they can over time as we work through the first year of ownership.

Jeff Hammond: Okay. So then, just on the EBITDA guidance margins, you did 23% and you're saying 23% to 24%, but it seems like you should get good incrementals on high single-digit organic growth. And if Balboa is additive, it just seems like you'd have more lift based on just your historical incrementals. Is there something, temp costs coming back, investments, inflation that I'm not thinking about?

Josef Matosevic: Yes. So clearly, the investment part, Jeff, will play a key role into this as we continue to invest in our manufacturing plants. We are going to add another layer of low-cost manufacturing and start leveraging this outside of just our Mexico operations. So, one answer to your question would be, there's an investment plan throughout 2021 that will ultimately pay off with improved margins, getting the equipment upgraded, in many cases, getting some automation in our Hydraulics side of the business. And then, secondly...

Tricia L. Fulton: Yes, Jeff, there are some cost add-backs. Clearly, we were able to take costs out of the business throughout COVID, some of it because we couldn't travel, but discretionary costs came out of the business last year, and we have said that most of those were temporary and will come back. The first quarter, first half of the year still seems like travel is going to be a little bit limited, but we are very anxious to get back in front of customers as soon as they will let us, and we will start that as soon as we can. So, we will see those costs coming back.

Back to Josef's investment comment. Clearly, our first investment was BJN. We have an investment in a great group of talented engineers that are going to help us accelerate our movement into the diversified end markets that will ultimately result in a lot of growth on the top line and profitability, but for right now, that is an investment.

Jeff Hammond: Okay. And then, just last one. You mentioned, Tricia, I think, a lot of new product rollouts driving growth and a lot of discussion about the Deere supplier one and some of the synergies. But, is there anything baked into your guidance from Balboa growing outside of its core health and wellness or is that something that starts to hit in 2022 or 2023?

Tricia Fulton: Yes. Some of the new product rollout is already baked into the forecasting, but we can foresee that we will have others that come along as we're working through bringing together the Electronics businesses to create the good, better, best product strategy and be able to roll that out to customers. We have some new things coming out in both QRC and CVT, as well, on the Hydraulics side.

Operator: [Operator Instructions] Our next question is a follow-up from Mig Dobre with Baird.

Mig Dobre: Thank you for taking a follow up. Just a little more color on pricing, if you would. History, Trish, would have you raising prices quite nicely in 2021, in Hydraulics, at least, as volumes rebound. I'm curious what you have announced already for 2021, I don't know if I missed that in your prepared remarks, and how you're thinking about the year as a whole, and related to this, price cost. Do you think you're in a position to be balanced for 2021 there or should we be thinking that price cost can actually be a headwind for you, and that's kind of what's reflected in the margin guidance?

Tricia Fulton: We have not taken any pricing action so far in 2021. There probably are some opportunities there. We have not raised pricing in some of the businesses in a while. Given the COVID headwinds and at times, in the past, our deliveries were not on par with what we wanted them to be, so pricing was difficult, but I do think we have some pricing opportunities in general in 2021. Also, when you're looking at the price cost, if we start to see cost increases on the materials side, we should be able to get some of that in pricing as well. We need to look at that and evaluate that as we go along and evaluate where we are seeing those material cost increases. We've tried to mitigate those as much as we can so far, and I think we've done a pretty good job at that, but there's definitely some opportunity.

Mig Dobre: And do you think you can be neutral or balanced from a price cost perspective in 2021?

Tricia Fulton: Yes. The goal is to be neutral, at a minimum, on that for 2021.

Mig Dobre: Great. And then, lastly, you talked about going out and trying to protect your own supply chain and ordering out several periods in advance, because you knew that there were going to be some disruptions as we were coming out of COVID. That all makes sense. I guess, I'm wondering, are your own customers taking a similar approach? I'm thinking here back to 2016 or 2017 when we were seeing ordering in advance, which is why you built backlog. Are you seeing something similar?

Tricia Fulton: From our customer perspective, we have a lot of long-term agreements in place, both with our customers and with our suppliers, so, in many cases, pricing is set with at least the OEMs on the sales side and with our larger suppliers on the supply side. Where we have a little bit more flexibility is with the customers where we don't have long-term contracts in place per se. We've seen that some of our customers are increasing prices as we're heading into 2021; and so, we're also taking that opportunity to go back to them to get increases.

Mig Dobre: Right. I wasn't asking about price. I was simply asking if your customers are trying to secure production slots from you in advance and they're double-ordering.

Josef Matosevic: We have seen steady flow here. Nothing out of the norm, Mig, so far. We are seeing a slight uptick in the Electronics segment, in that segment in building a little better backlog than originally anticipated, but nothing really significant enough that we see, I guess.

Operator: Mr. Matosevic, we have no further questions at this time. I would now like to turn the floor back over to you for closing comments.

Josef Matosevic: Thank you, operator. Well, thank you so much for joining us today. We really appreciate your interest in Helios and look forward to updating all of you on our first quarter in May. We have a great company, and we are super proud of the accomplishments we have made as a team over the last year and look forward to our future growth. Thank you to the entire Helios family around the globe for your tireless efforts supporting our partners, our communities and each other. Have a great day and stay healthy.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.