Operator: Greetings, and welcome to the Helios Technologies Second Quarter 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Tania Almond, Investor Relations and Corporate Communications for Helios Technologies. Please go ahead.

Tania Almond: Thank you operator, and good morning everyone. Welcome to the Helios Technologies Second Quarter 2021 Financial Results Conference Call. We issued a press release yesterday afternoon. If you do not have that release, it is available on our website at hlio.com. You will also find slides there that will accompany our conversation today. On the line with me are Josef Matosevic, our President and Chief Executive Officer, and Tricia Fulton, our Chief Financial Officer. They will spend the next several minutes reviewing our second quarter results, discussing our progress with our accelerated growth goals, reviewing our recent NEM acquisition and updating our outlook for the rest of 2021; and then, we will open the call to your questions.

If you turn to **Slide 2**, you will find our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and also during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties and other factors will be provided in our 10-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.

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

Josef Matosevic: Tania, thank you, and good morning everyone. Please turn to **Slide 3** and I will summarize our highlights for Q2.

Our team delivered another excellent quarter, with strong sales and earnings surpassing our expectations at every level. I want to thank the entire Helios family for all their hard work and tireless dedication to our customers. We have excellent operating momentum as we execute our augmented strategy and are on the right path to achieve our accelerated goal of $1 billion in revenue while delivering top tier Adjusted EBITDA margins by the end of 2023. That is two years earlier than our previous plans.

We had very strong double digit organic growth, driven by serving our customers well and diversifying our markets. In fact, we believe we are gaining market share as we provide industry-best lead times. As we have been winning over the hearts and minds of customers, we are focused on remaining flexible to meet their needs in this very volatile macro environment.

In addition, we are bringing new products to market at an accelerated pace to help make them more competitive as well. In total, we had 87% growth in the quarter with 37% organic growth. In addition to driving the top line, we are gaining traction with our manufacturing strategy as well. This helped drive solid operating and EBTIDA margin expansion. In fact, we posted the best margin results we have had in three years.

We are implementing targeted pricing strategies to help offset the continuing supply chain headwinds that the industry is facing, including higher freight costs, raw material price increases and shortages of components. We are focused on cash generation, with approximately $35 million of cash from operations in the quarter and 137% trailing twelve-month free cash flow conversion, and, true to our growth strategy, we can very quickly de-lever the balance sheet while self-funding our bolt-on acquisitions.

We are making excellent progress with our acquisition strategy too. Our most recent success is NEM, which we closed in less than 30 days. NEM is an innovative hydraulic solutions company that provides customized material handling, construction, industrial vehicle and ag applications to its global OEM customer base. NEM is ideally located in northern Italy in a region which happens to be among the world's most innovative and technology-friendly areas in the Hydraulics industry.

NEM enhances our electro-hydraulic product offering and provides us geographic expansion with greater global presence. The addition of their manufacturing and engineering capacity also provides us scale to address new markets. Finally, NEM has very strong brand recognition in hydraulic valve technology and their deep application expertise will enable us to grow our OEM business. We could not be more pleased to have welcomed the NEM team into the Helios family.

Given our outperformance, we are raising our full year outlook again, which we will review in more detail later in our remarks.

On **Slides 4 and 5,** I will touch on some financial highlights for the quarter; and then, Tricia will go into more detail during her prepared remarks. Our second quarter net sales grew to over $223 million of which $60 million was from acquisitions. Our adjusted EBITDA margin grew to 25.7% compared with last year, an increase of 310 bps.

Non-GAAP cash EPS was $1.20, an increase of 118% over last year, reflecting the better-than-expected performance of both segments. All in, the second quarter demonstrated strong execution by the entire company. I am incredibly proud of the Helios team and the excellent momentum we are building as we execute our augmented strategy to drive growth, generate cash and deliver top tier adjusted EBITDA margins.

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

Tricia Fulton: Thank you Josef, and good morning everyone. On **Slides 6 and 7,** I will review our second quarter consolidated results.

Let me start by saying that we heard your request for greater transparency on acquired revenue and are pleased to give you what you need to better understand our strong performance. You will find in our press release a table that shows organic revenue by quarter and the contributions of acquisitions.

As Josef noted, we outperformed and delivered outstanding growth in the second quarter, supported by our focus on delivery lead times, our expanding sales channels, strong end markets, managing our operations efficiently, and our most recent transformative acquisition of Balboa, which exceeded our expectations again.

Net sales grew 9% sequentially and 87% over the prior-year period as we executed our growth plans and continue to take market share. Second quarter gross profit of $82.2 million increased $6.8 million, or 9%, compared with the trailing quarter and $37.5 million, or 84%, from the prior-year period from higher volume.

Gross margin of 36.8% was flat sequentially and year-over-year was impacted by improved fixed cost leverage on higher volume, the difference from Balboa's margin profile, as well as supply chain challenges and increased material and freight costs.

We are implementing multiple pricing strategies while also carefully managing the business to overcome the higher input costs. Manufacturing is performing well given the juggling act required to get product out the door. Our manufacturing operations are extremely flexible and agile in balancing available materials and staffing to ship products to our customers.

Adjusted EBITDA margin grew to 25.7%, up 310 basis points from the same period a year ago and up 60 basis points compared with the trailing quarter, reflecting our disciplined cost management efforts, productivity improvements and the contributions of Balboa.

Non-GAAP cash EPS improved $0.21 to $1.20 for the second quarter over the trailing quarter and was up $0.65 compared with the prior-year period, reflecting strong demand across all industries and better-than-expected performance of the Balboa acquisition.

Our effective tax rate in the second quarter was 17.6%, which was lower than expected due to the settlement of a transfer pricing dispute.

Please turn to **Slide 8** for a review of our Hydraulics Segment second quarter operating results. Second quarter Hydraulics sales of $133 million were up 30% over the prior-year period and benefited from broad-based improved demand in most of our end markets showing growth in all geographic regions. Sales included a positive $6.7 million impact from foreign currency exchange rates.

Q2 Hydraulics gross profit benefitted from higher volume while margin increased 160 basis points to 38.3%, primarily driven by fixed cost leverage on higher sales and production labor efficiencies. These drivers were partially offset by rapidly increasing freight costs and efforts to provide deliveries on time to customers.

The 280 basis point operating margin expansion to 24.3% compared with the prior-year period reflects operating leverage on higher volume as well as our disciplined execution on our manufacturing strategy.

Please turn to **Slide 9** for a review of our Electronics segment's second quarter operating results. Electronics sales were $90.4 million up from $17.2 million in the year ago period, reflecting an increase of 426%.

Notably, we had very strong organic growth in this segment year-over-year. We are seeing the positive impact of the new product roll outs in the recreational market that we have been discussing for some time, and, by comparison, last year's second quarter was the most heavily impacted by the pandemic for this segment.

Acquisitions contributed $60.2 million in revenue to our Electronics Segment sales for the second quarter. In addition, Balboa continues to exceed our expectations. The capacity expansion investments we made have enabled Balboa to meet the on-going growth in demand. We are very excited by the potential this acquisition has brought to our business.

Electronics segment gross profit of $31.2 million in Q2 increased with the acquisition and higher volumes. Electronics gross margin was 34.5% and reflects the impact of mix primarily related to the different margin profile of the Balboa acquisition, as well as increased costs resulting from supply chain challenges to meet strong customer demand.

Operating income for the Electronics segment of $19.6 million increased $1.3 million, or 7.1%, from the trailing first quarter and was up from $900 thousand in the prior-year period. Operating margin improved 30 basis points sequentially to 21.7% and was up from 5.5% in the prior-year period. The 2021 second quarter margin reflects the strong operating leverage inherent in this segment.

Please turn to **Slide 10** for a review of our cash flow. Cash from operations was $34.5 million in the second quarter, up from $25.3 million in the prior-year period. We are carefully balancing our working capital requirements with our efforts to provide timely deliveries to our customers amidst significant demand.

For the quarter, capex of $5.3 million represented about 2% of sales. We are tightening our expected capex range to $30 to $32 million for 2021, which remains approximately 4% of sales for the full year based on our updated outlook.

Free cash flow was a strong $29.1 million at the end of the second quarter, equating to a trailing twelve month free cash flow conversion rate of 137%, as Josef mentioned. We are confident we have significant financial flexibility to further pursue our flywheel acquisition strategy.

Regarding our capital structure on **Slide 11**, we continue to rapidly de-lever our balance sheet with a pro forma net debt-to-adjusted EBITDA leverage ratio of 2.16x. This continues to improve from the 3.0x at the end of 2020.

Total debt was $437 million at quarter end, reflecting total repayment of more than $15 million during the quarter. At quarter end, we had $161 million available on our revolving lines of credit with total liquidity of $196 million.

As a reminder, our financial strategy is to increase leverage for disciplined acquisitions and then generate the cash to quickly pay that down. Our capital priorities remain debt reduction, organic growth through new products and technologies, acquisitive growth and distributions to shareholders.

We have been a consistent dividend payer over the last twenty-four years. We recently paid our 99th sequential quarterly cash dividend on July 20th of this year.

Now let's turn to **Slide 12** and I will discuss our outlook for the rest of 2021.

Our guidance for 2021 assumes constant currency using quarter end rates, as well as the assumption that our markets are not further impacted by the global pandemic.

We are raising our revenue outlook for 2021 to the range of $800 million to $830 million, which implies an annual growth rate of approximately 56% at the mid-point of the range. Adjusted EBITDA margin outlook is increasing 50 basis points to 23.5% to 24.5%. We continue to leverage our manufacturing efficiencies to offset stronger headwinds in the second half due to rising material costs.

This implies we are raising our expectation for Adjusted EBITDA dollars to the range of $188 million to $203 million, or a 61% annual growth rate at the mid-point of the range. Additionally, we continue to invest, through non-capex related items, into our manufacturing strategy to reap the rewards of margin improvement over the long term.

We are being cautious as we look to the second half of 2021. While demand across all of our served markets continues to be robust, we recognize that the supply chain challenges could disrupt our ability to continue to deliver at the pace that we have been. As a result, we are increasing the size of our guidance range from what was a $10 million range to now a $30 million range.

Relative to our margin guidance, we are reflecting inflated material and freight costs continuing through the second half of the year, the challenges of obtaining parts and supplies even as we build inventory as well as the difficulties in staffing and balancing production lines.

Interest expense outlook, at current borrowing levels and rates, remains unchanged and should be between $16 million to $18 million.

Due to a favorable shift in the mix of earnings into geographies with tax advantaged economic incentives along with the favorable resolution of uncertain tax positions, the effective tax rate for 2021 is now expected to be in the range of 22% to 24% down from 24% to 26%.

Depreciation is now expected to be between $22 million to $23 million and Amortization now expected to be approximately $32 million to $33 million.

We are raising our Non-GAAP Cash EPS outlook to between $3.60 to $3.80 per share, or a 65% increase over the prior year at the mid-point of the range.

The increase in our guidance for 2021 is driven by the strong end market demand we had in the first half of the year and is expected to continue throughout the remainder of 2021. We are able to leverage our fixed cost base and maintain our strong margins even given the headwinds on the supply chain, material costs and logistics.

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

Josef Matosevic: Thank you, Tricia. Again, we are driving excellent performance and I am extremely proud of our team. We are stepping up to the many challenges we are facing, while driving amazing execution of our strategic plan.

We are uniting efforts across the organization to deliver outsized growth and are confident in our ability to meet our long term accelerated financial goals.

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

Operator: [Operator Instructions] The first question is from Mig Dobre with R.W. Baird & Company.

Mig Dobre: I figured I would start with your updated top line guidance. Your initial guidance had about a $10 million range. The range is actually widening to $30 million in your updated guidance. At least, to me, it's a little bit counterintuitive, since we're only dealing with six months left in the year. I'm curious as to what's embedded in here in terms of the high end versus the low end and I'm also curious, when I'm thinking of the $70 million increase at the midpoint, what contributed to that and if you can bucket it by the various segments or business line?

Tricia Fulton: Thanks for the question. In the guidance, we did expand the range quite a bit, which we agree with you is a little counterintuitive at this point; however, given what we're seeing in the market, we thought that we needed to give ourselves a little bit of room. Certainly, on the high end, it shows the strong demand that we have in all our end markets and all our businesses, and we're very pleased with where we are on order intake and the demand levels and where the market seems to be going. Because of the supply chain challenges that we're seeing across the businesses, but probably a little bit more on the Electronics side, we felt that we needed to give ourselves a little bit of room in the event that we aren't able to get the parts in that we need to turn around the shipments in the third and fourth quarter.

I think it is important to remember that the demand is there. It really just is a supply chain constraint problem that we're dealing with. Our supply chain teams are doing an excellent job of getting products in the door, but it is hand-to-mouth a lot on the parts for what we need to make in any given day. We're happy with where we are, but we don't see those clearing up before the end of the year. There has been some reports that we may see some of them still into '22. I think we have a pretty good handle on it, but there's still logistics and a few supply chain issues that are holding us back from being able to say that our top line is going to be at the high end of that range for sure.

Mig Dobre: That's helpful and that makes a lot of sense. Are there any areas of your business where you're seeing more of a constraint? I'm thinking Electronics, in particular, I'm wondering. Can you also help us out with any of the buckets as to that $70 million of revenue increase? Was that mostly Electronics or was that Hydraulics as well? That'd be helpful.

Tricia Fulton: It really was across the board, Hydraulics and Electronics. The split between the two segments for the first half is at the higher end of the range, what we anticipate that split will be for the second half as well. Where we're seeing supply chain constraints is across all the businesses, but specifically in Electronics. We've had probably more challenges there than on the Hydraulics side. Some of it is components, some of these things getting tied up in ports. We had shipments get lost in transit that were then found, but we aren't able to get those products in time to make the product according to the schedule that the customer wants from a delivery perspective.

While we're seeing all of those things happen on the Electronics side, I don't think we're any different than anyone else in that regard. We're really pushing the supply chain teams to come up with creative ways to get us the products that we need. We're going out to the broker market when we need to.

On the Hydraulics side, I think some of the constraints is material cost, and steel is going up, so that has some effect. The constraints, though, are really that our suppliers are very busy, because all end markets right now, whether ours or in other industries, are very strong, so the suppliers are very busy as well.

Mig Dobre: I see. Okay. The last question for me is on Balboa. The revenue traction that this business has had this year has been considerably higher than, I think, what we expected or modeled in. I'm curious in terms of what's driving the growth and how sustainable you see this to be. Is there any seasonality here to be aware of in the back half of the year relative to the first half?

Josef Matosevic: Mig, during our investor meeting a few weeks ago, we pretty much laid out exactly what the path will look like for each of our businesses. In particular, within Balboa, certainly, a large piece comes from pent-up demand. You also heard us saying that we want to diversify into other markets. With the acquisition of BJN coming to our family, they work collaboratively with Enovation to develop the next-generation products and really have a good-better-best strategy to enter other markets that we're starting to see slowly, but surely, build some traction.

To summarize your question, backlog and pent-up demand combined with some diversification, new end markets and new customers.

Mig Dobre: And on the seasonality question, Josef?

Josef Matosevic: As far as we can see right now, we have everything baked into our guidance for the remainder of the year. We continue to see a very strong order pattern. As we honestly get further educated with that business, we'll communicate accordingly, but we don't see that seasonality, quite honestly, at all right now.

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

Adam Farley: This is Adam Farley on for Nathan. As you noted a couple of times, you're picking up market share, but providing best-in-class lead times. Could you describe how you're able to maintain that advantage? How does Helios believe it is generating better lead times than the peers and competitors?

Josef Matosevic: Great question. On the Hydraulics side, north of a year ago, we took an effort to clearly understand our investment strategy in manufacturing and identify the bottlenecks, whether it's operations, supply chain or material flow. We heavily invested not only in improving the processes but also bringing some additional talent in. We knew that this is an area where we can separate ourselves from the competition. The investment part, followed by talent, education and lining up the supply base with our core competencies and having a strategy of collaboratively working through this process, got us to a point where we have folks actually at our suppliers' station on a weekly basis. We invested in that area. We knew we needed to get better in that area and we are holding extremely strong lead times. We have also put ourselves in a position to clearly understand where our customers are going and what they will require of us to maintain and gain our market share; however, the notion of the strategy is the investment into manufacturing operations, which drove that result.

Adam Farley: Okay, switching over to price/cost. I know some contracts on the price line can be fixed, especially in Electronics. How is Helios able to negotiate any type of pricing from raw material inflation? Do you have any price increases planned to announce for the second half?

Tricia Fulton: We do have pricing for the back half in all of those businesses to some degree. Like you said, those end up being a negotiation, especially on the fixed price contracts. We've been with many of our customers for so long that we have been able to go to them and get pricing even on the fixed price contracts related specifically to the material cost increases that we're seeing. Some of those go through as a price increase and some go through as a material surcharge. Some are temporary and some are permanent. Certainly, we have been able to have those tough discussions and get the pricing or surcharges through, so that we can try to cover some of these increased material costs in the back half of the year and I think that's important to maintaining our strong margins.

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

Jon Braatz: Tricia, in your commentary, you talked a little bit about the new platforms contributing to revenues in the Electronics segment. We've talked about that for the last six to nine months. How do you see that unfolding over the next six to nine months? Are we just seeing the tip of the iceberg in terms of the new platform contributions?

Tricia Fulton: Yes. At this point, we are just seeing the beginning of those rollouts. In the first year of any rollout, we clearly haven't reached the maturity level on that product. We rolled them out slowly to make sure that we're meeting the commitments to our customers. Over time, those become very significant, especially on the Electronics side. We've seen that with Enovation specifically, because they have model-year rollouts related to their recreational vehicles. We have had a couple that have started rolling out this year, but we have more to come in the back half of the year. We're making sure that we have the parts in place to be able to make those products. That's been a key focus of the supply chain team, and I think that we're ready to go on those and we'll see them roll out.

For the year, the total percent of revenue that they're adding is not high. It's low single digit, but certainly, as those mature, it will become a bigger contributor to revenue.

Jon Braatz: How many different platforms do you see over the next couple quarters?

Tricia Fulton: Over the next couple quarters, we have what we would consider a significant rollout, probably three to four for the rest of this year. We do have others that are smaller, and they're important as well and important to get them right, but from a revenue perspective, they have a little less impact.

Jon Braatz: Okay. Josef, on the improved lead times, I would take it the improved lead times allowed you to take share from others because you were able to deliver the product. As the lead times improve for your competitors, do you think you'd be able to retain that business, that new market share?

Josef Matosevic: Certainly, Jon. We know, especially on the Hydraulics side, most of our products shift to distribution. We know our customers extremely well and we believe that, currently, with anything between a six-to-seven-week lead time, we clearly have the upper hand. We feel comfortable we will maintain those lead times and in some cases even improve those lead times.

On the OEM side, we also had very strong lead times, whether it's on the Faster business or our Electronics business. The differentiation there is, Jon, once you get specked in into that process, you are in for the next three to five years. It's very difficult to get out. We really invested wisely as a company in that area, knowing that we could have a differentiation there and also protect our margins.

The answer to your question is, we feel comfortable that we will maintain those lead times, but also we have other areas that we are working on that will further separate us from the competition.

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

David Tarantino: This is David Tarantino on for Jeff. Just starting out, you had pretty healthy incrementals of about 40% in the quarter despite all the headwinds out there, but guidance implies a modest step-down in the second half. Could you just go through the puts and takes in this outlook and how all the headwinds out there and seasonality of the business informed this guidance?

Tricia Fulton: It's difficult to say that there's seasonality this year, to be quite honest. With all of the demand in the markets that we're seeing across our end markets, I'm not sure that it's a normal seasonality year. Certainly, we had good incrementals, especially with what we saw on the supply chain side.

In the back half of the year, there are a couple of things at play. We have less workdays. In the back half of the year, we're seeing some supply chain challenges that we believe are probably going to keep us from being able to perform at the level that we did at Q2. However, the positive part of that, again, is really the demand that we're seeing in the end markets and the growth that we expect to continue in those end markets. It really is driven primarily by supply chain when you look at what the expectations are from a margin and revenue perspective in the back half of the year.

David Tarantino: You talked about it a little bit, but could you quantify the amount of price you took in Q2 and what you're expecting for price/costs for the rest of the year?

Tricia Fulton: We did put through a few selective price increases on specific products in the first half of the year. That really helped cover some of our costs that we were seeing on the cost increase side, but it's low single-digit millions for the year-to-date pricing impact. It's not a significant contributor to the first half of the year. It will likely be a larger contributor in the back half because we have a few price increases that are not rolling through until the August, September, October time frame, so there will be some impact there. Those price increases really were put through more to help us offset the material cost increases and supply chain constraint issues that we're having.

Operator: We have reached the end of the question-and-answer session. I'll now turn the call over to Josef Matosevic for closing remarks.

Josef Matosevic: Thank you operator. Thank you much for joining us today. We appreciate your interest in Helios and look forward to updating all of you on our third quarter in November. We remain super confident in our ability to continue to grow and deliver value for all our stakeholders. Have a great day and stay healthy.

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