**Operator:** Greetings, and welcome to the Helios Technologies Third Quarter Fiscal Year 2022 Financial Results Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the call over to Tania Almond, Vice President of Investor Relations and Corporate Communications. Thank you. You may begin.

**Tania Almond:** Thank you, operator, and good day, everyone. Welcome to the Helios Technologies' Third Quarter 2022 Financial Results Conference Call. We issued a press release announcing our results this morning. 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 Executive Vice President and Chief Financial Officer. They will spend the next several minutes reviewing our third quarter results, discussing our progress with our strategy, providing our updated outlook for 2022, and then we will open the call to your questions.

If you turn to **Slide 2**, you will find our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and 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 were provided in our 10-K filed with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I'll also point out that, during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP with non-GAAP measures in the tables that accompany today's slides. Please reference **Slides 3 & 4** now. With that, it's my pleasure to turn the call over to Josef.

**Josef Matosevic:** Tania, thank you, and good day everyone. This quarter again our team has kept their heads down to deliver to our customers, execute our plan, and drive results. Against the backdrop of a major hurricane, rapid and measurable change in FX rates, ongoing supply chain challenges, effects on Europe from a prolonged war, and a weak and restricted economy in China. We continue to innovate with new technology, capture market share, integrate our flywheel acquisitions, and diversify in applications and markets. In a nutshell, we are executing on our augmented strategy to continue to deliver on our long-term growth plans with top tier margins.

Our steadfast dedication to our customers, our technology innovation leadership, and our ability to leverage our unique vantage point as a pure play in the hydraulics and electronics space, provides us confidence that we will continue to outperform against our competition.

Protecting the business, our margins, and cash flow are top priority in this environment. As I mentioned on our last earnings call, we have been making great progress executing on our manufacturing and operating strategy. We provided some excellent examples of our strategy at work at our recent sell-side analyst day. For example, this includes leveraging the manufacturing expertise and operational footprint we gained with the acquisition of Balboa. We are moving the production of several product categories to our state-of-the-art, low cost operations in Mexico. Our strategy addresses our "in the region, for the region" approach that has enabled us to outperform on lead times to our customers and gain market share. In addition, we are seeing our operating companies working closer together across R&D, manufacturing, as well as system sales. Our transformation to an integrated operating company is happening!

This strategy provides the framework for a long runway of operational efficiencies that we are still in early innings of executing. As we fold in more flywheel acquisitions over time and add new markets and products, there will always be something to optimize. We outlined examples of several current projects we have in process. I encourage you to review the analyst day deck on our website to learn more about the many actions we are taking to drive efficiencies, productivity and optimize our cost structure.

This quarter, we further demonstrated our focused flywheel acquisition strategy closing on Daman Products. They are an excellent complement to our Hydraulics platform. Daman brings established, long-term relationships with a diversified customer base serving multiple end markets. Additionally, they have a differentiated value proposition with a strong engineering team that serves a breadth of applications across both custom and standard manifold design packages. With the Helios Business System, we expect to leverage Daman from a very successful small business to closer to a hundred-million-dollar business over the next few years. We are so pleased to add them to the Helios corporate family.

We continue to prove our innovation leadership. Capitalizing on our expertise in the hydraulics and electronics, we created a breakthrough one-of-a-kind solution that we expect to drive change throughout the markets we serve. Our recently announced ENERGEN™ solution creates electrical power by capturing wasted energy from hydraulic fluid which can be used to support the growing number of electrical applications required on any type of equipment. This changes the paradigm and we are serving the megatrend of electrification of hydraulics by creating power where it's needed. This is just one of many technology innovations that we have recently announced. We held a science-fair tour lead by our engineers during our analyst day to highlight the large number of new, innovative, energy-efficient products we are bringing to the marketplace over the coming months as we execute on our innovations roadmap.

All we do remains centered on our intent to protect our business, think & act globally, diversify our markets & revenue sources, and attract and retain talent – which is the backbone of our success. Thank you once again to all the Helios colleagues this quarter for their tireless work and dedication to our company.

Let me now turn the call over to Tricia to review the financial results and discuss our updated outlook in more detail before I come back for some closing remarks. Tricia?

**Tricia Fulton:** Thank you, Josef, and hello, everyone. On **Slides 5 through 9**, I will review our third quarter 2022 consolidated results. As Josef noted, we are executing to drive growth through innovation and acquisitions, protect earnings in tough market conditions and support our future through the talent of our team.

First, I want to address the most recent events in Sarasota with regard to Hurricane Ian. With our Sun Hydraulics operations in Sarasota, close to where many of the predictive models were forecasting a potential direct hit, we proactively shut down our operations for the safety of our team. As the majority of our cartridge valve manufacturing is located here, ultimately over 14 shifts were impacted. Thankfully, I am happy to report that our colleagues are all safe and our facilities unscathed from the event. With an estimated $5.3 million impact of revenue unable to ship due to the hurricane and when we exclude the $8.2 million impact of foreign currency exchange rates, revenue in the quarter was basically unchanged over last year. It's important to note that the sales impact from the hurricane is not lost business, it just shifts the timing given the number of labor hours that were impacted.

Geographically, the Americas were solid, while EMEA and APAC, specifically China, clearly reflected the economic conditions in those regions.

In terms of end markets, our recreational market growth was significant with strong double-digit increases primarily driven by our new product wins that were several years in the making. We also had nice growth in the industrial market driven by machinery and energy and the mobile markets grew as well. The diversification we now have in our end markets is much better than in the past, but the tough year-over-year comparison to the amazing performance our health and wellness market had last year is still having a drag on results. I will discuss this more in a moment.

Current conditions prevented optimal operations in the quarter. Gross profit and margin declined on lower volume, the impact the hurricane had on operations, FX rates, and continued challenges with supply chain and logistics. We are realizing benefits from our manufacturing and operating strategy that partially offset the other items.

We are focused on cost containment and SEA expenses were down 3% over the prior year. Adjusted EBITDA was $48.0 million and adjusted EBITDA margin was 23.2%. When normalizing for the hurricane, adjusted EBITDA margin would have been 23.6%. We continue to demonstrate we can provide top-tier margins even through a very challenging operating environment.

Our effective tax rate in the second quarter was 23.6%, up sequentially as expected and above the high end of our original guidance range, but down compared with the year-ago level primarily reflecting the impact of varying tax jurisdictions.

Diluted Non-GAAP Cash EPS of $0.90 includes a three-cent impact for FX and an estimated five-cent impact for the hurricane.

On **Slide 10** you will find highlights of our Hydraulics segment results. Sales grew 8% on a constant-currency basis and normalizing for the estimated hurricane impacts. The effect to sales related to foreign currency exchange rates was $7.9 million in the quarter. In addition to the approximate $5.3 million shipment delays from the hurricane, we estimate there were $6.6 million of sales delays in this segment due to supply chain shortages. This amount is up from $6.0 million last quarter.

Hydraulics segment gross profit was impacted by unfavorable FX of $1.9 million and an estimated $2.3 million from hurricane impacts. Cost discipline resulted in a 7% reduction in SEA expenses over the prior year.

Please turn to **Slide 11** for a review of our Electronics segment results.

Our Electronics segment is more concentrated in the U.S. so foreign currency has less of an impact on revenue. We saw strong double-digit growth in recreational, industrial machinery, as well as the construction markets. Our new product roll outs could not fully offset the decline we are seeing in the health & wellness market. Therefore, our net sales declined 15% over the prior-year quarter. We are not expecting improved conditions from the health & wellness market over the next year given the global economic environment.

Delays in Electronic segment shipments because of supply shortages was an estimated $8.2 million, which improved from $9.1 million last quarter. We expect to continue to see this come down.

Electronics segment gross profit of $22.8 million and gross margin of 30% is a direct reflection of the slowdown in the health & wellness market. SEA expenses were managed well, down 9% in light of the weakness in sales.

Please turn to **Slide 12** for a review of our cash flow. Cash flow was strong in the quarter as we generated $30 million in cash from operations.

CapEx came in at 4% of sales for the quarter and 3% year-to-date. We continue to expect capex for the year to be in the range of 3 to 4 percent of sales.

Free cash flow was again nearly $22 million in the quarter. We have generated over $52 million in free cash year-to-date. As we have noted before, we are intentionally investing in working capital to meet customer demand, outpace the competition and deliver on commitments. In the quarter our cash conversion rate was 105%, back above 100%.

You can see on **Slide 13** that we have a strong balance sheet and significant financial flexibility to execute our strategy for growth. Total liquidity at the end of the quarter was $168 million. Our net debt to Adjusted EBITDA leverage ratio was 1.9x. We believe this puts us in a solid position to capitalize on current market conditions to make selective bolt-on acquisitions.

Now let's turn to **Slide 14**. I want to take a moment to review our longer-term growth plans we set at our investor day in June 2021 and put some perspective around the health & wellness market. When we acquired Balboa Water Group in November 2020, their annual revenues were north of $100 million. In 2021, they nearly doubled their revenues significantly outperforming our M&A model and accelerating our return-on-investment timing on the acquisition. They capitalized on the pandemic trend of consumer investment while people were not traveling as much. The deal was perfectly timed for Helios shareholders to benefit from the market trends. In addition to adding a new end market to our business, they brought complementary technology as well as a state-of-the art low-cost manufacturing facility in Tijuana, Mexico. As Josef described, we are leveraging that facility in our manufacturing and operating strategy and expect several benefits from it over time.

As you know that industry is currently going through a normal market correction coming off such a boom cycle, which is impacting our 2022 performance and comparisons. We continue to remain on our trajectory path to achieve our original destination of at least $1 billion in revenues by the end of 2023, which we had accelerated by two years. We have executed on several high-quality flywheel acquisitions along the way to help us reach our goal. We continue to have a very active pipeline of potential acquisitions and feel confident in our ability to take advantage of an unstable market environment to continue to advance toward our long-term financial goals.

Please turn to **Slide 15**. We are adjusting our 2022 outlook down to accommodate for known factors. We are cautious given inflation, the decline in consumer spending, China restrictions, the war in Ukraine and FX. High inflation may continue to slow the global economy and is also causing a pullback in consumer spending which is directly impacting the Health & Wellness market. Weakness in the economy in China driven by continued restrictions is negatively influencing demand in that region.  Significantly rising energy costs in Europe, driven by the prolonged war, has slowed the economy in EMEA for our end markets and driven up fixed costs of our manufacturing facilities. The strength of the US Dollar negatively impacts results generated in currencies other than USD. These issues of course are all driving the widely discussed global recession. As noted, we are reducing revenue and adjusted EBITDA, and while expecting a slightly lower adjusted EBITDA margin it should remain in top-tier performance. Higher interest expense and a higher effective tax rate will also impact the bottom line.

Despite all of this, we believe we can protect the business, cash flow and earnings and that the Helios Business System provides the structure and discipline to execute our long-term plans.

Against these headwinds, we remain confident in our ability to achieve our accelerated longer-term growth targets. This will be accomplished through a combination of the diversification of our business, continuing to bring innovative products to market, and the progress on our manufacturing and operating strategy. We are focused on our continued evolution into system sales as we become an integrated operating company as well as, our active acquisition pipeline to drive growth. We believe we are in a unique position to be opportunistic because of the strength of our balance sheet and our significant liquidity.

With that, please go to **slide 16** as I turn the call back to Josef for some final comments.

**Josef Matosevic:** Thank you much, Tricia.

Clearly, we are all in these challenging global times together. This is when companies who remain critically focused on their purpose and mission, stay incredibly close to their customers and partners, and keep investing in their people and technology will be the long-term winners. I believe the Helios team is up to the challenge and the value proposition of our augmented strategy provides the framework for us to win. We are driving market share, protecting our margins, creating innovative sticky solutions, leveraging our earnings power, and delivering on our long-term goals.

Where there are challenges, there are always opportunities. Because of this, I strongly believe we have line of sight to continue to drive scale and achieve our accelerated milestone of reaching at least $1 billion in revenue by 2023 with top-tier margins.

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

**Question and Answer**

**Operator:** Our first questions come from the line of Jeffrey Hammond with KeyBanc Capital Markets.

**David Tarantino:** Hey good morning everyone, this is David on for Jeff. Can you just walk us through the electronic weakness specifically regarding the health and wellness declines a little bit more? Like are you seeing a more aggressive destock in North America similar to other residential end markets? Or are there more moving parts? And I guess on this, just how do you expect this to progress near term?

**Tricia Fulton:** Yes. As we talked about on the last few calls, we started to see inventory levels rising in Europe, primarily from goods that were being shipped out of China and in Europe, and that market slowed first. We, throughout the quarter, started to see the slowing also in the Americas, but certainly not to the degree that we saw it in Europe or in APAC. There's probably some destocking going on in the Americas, but the majority of that destocking needs to happen in EMEA as we go forward. We're still getting some good news for 2023 from our North American customers. It really seems to be focused more on Europe.

But with the economy the way it is, interest rates the way they are, I think that's going to be probably a few more quarters than we had anticipated before we start to see that market turn back up. But we know that it will turn back up. This is a short-term problem that we're having right now with it. But certainly, I think there's a lot of opportunity going forward, and we saw that we are coming off of a record year last year in that market, and we were able to take advantage of that very well, I think. So this is just a normal market correction, we believe.

**David Tarantino:** Okay. Great. And then I guess kind of staying on that topic, just can we parse out the headwinds in electronics between kind of the health and wellness and supply chain. And then relative to these headwinds, how should we be thinking about new products as an offset to some of the weakness in supply headwinds?

**Josef Matosevic:** Yes, we had an Analyst Day here, David, just a few weeks ago, and I think folks got a very good sense for what products we'll be introducing to the market in 2023 and beyond. This was well invested and well planned over the last two years. We knew we would be in a correction stage, especially in the health and wellness area. We are working with our customers very closely. We ran our customer perception study a couple of years back, and continue to follow up, we know pretty much where to hunt. Over the last couple of years, we heavily invested in products that are not just going to be complementary to what we are doing, but it will clearly help us diversify into other applications, other markets and most importantly, give us the system sales capability that will make it very sticky.

So a few specific examples in the health and wellness area with having our Helios Center of Engineering Excellence working together with our Enovation and Balboa teams. We are bringing products out to the market over the next few quarters that will clearly diversify above and beyond the health and wellness industry more into the specialty vehicles area and other applications that we clearly laid out in our Analyst Day. We feel pretty confident that this is a pullback. We do believe that we're nearing, in many areas, the bottom in the health and wellness area, and we should start seeing a slight recovery. You know Asia obviously is still a wildcard as we have substantial growth opportunity there as well. But the new products over the next couple of years in the Electronics segment, in Health & Wellness and on the Enovation side will more than offset what we're currently seeing.

**Operator:** Our next questions come from the line of Mig Dobre with Baird. Please proceed with your question.

**Mircea Dobre:** Thank you good morning everyone, so Tricia I appreciate the context on Balboa, $200 million of revenue or close to it in 2021. If we're looking at Q3 and your Q4 guidance, what sort of revenue level or revenue run rate for Balboa is implied in your Q4 guide?

**Tricia Fulton:** On the electronics side, certainly, Balboa is affecting the Q4 numbers. We're still seeing a lot of strength of Enovation and we talked about the new product rollout that they've had. Recreational markets are still going very well for us, both in marine and vehicles. So, the impact that you're seeing on Q4 is pretty much all being driven by the Balboa demand cycle.

**Mircea Dobre:** Right. But, I'm not clear as to what the revenue run rate is here. Is this business now reverted back to kind of a $100 million base that you had when you initially acquired it? Is that the sort of revenue run rate here? Or is it different?

**Tricia Fulton:** We don't really like to give out specific business unit targets. We're looking at the Electronics and Hydraulics segments as segments, especially as we're rolling acquisitions into them. But certainly, the run rate is significantly lower than what we saw in 2021.

**Mircea Dobre:** Because I think this is the thing that we're all grappling with here. And David was asking about this earlier on, too, as we're trying to sort of right-size our estimates for 2023, we're really trying to understand the magnitude of the headwind that is coming from this health and wellness market. What's kind of baked into the pie for the second half of this year? And what might still be on the come in the early part of '23? So, I don't know if you can help at all with that dynamic.

**Josef Matosevic:** Mig, I think a fair way of answering your question here actually is when we acquired Balboa, in particular, we were just north of $100 million. That revenue obviously jumped up, as you know, almost double sized and now it pulled back more into the $150 million, $160 million type of range. We think that in some cases, we are seeing the bottom and seeing some slight recoveries, in particular, in North America; still waiting for data points from Asia, and we will be in Europe actually next week, all week long, and getting a good feel for where the markets are trending in Europe. Will you see Balboa falling back to the levels when we acquired the company? We don't see that. We are right now somewhere in between those two numbers: you know when we acquired them versus when we peaked. I think that is a factual way we can answer your question at this point.

**Mircea Dobre:** Okay. That's helpful. Then -- go ahead.

**Josef Matosevic:** At the same time, as you saw in our Analyst Day, we have developed new products in particular on the Balboa side. Considering the energy costs in Europe on the heat pump for an example, as you saw, that will help us mitigate some of the headwinds and certainly help us with the sales in Europe. But you should have a very good feel for where these products are going and what's our opportunity. So, we're really not too worried, not too concerned. We got plenty of feedback from our customers, direct feedback. There were a few days here, over a couple of weeks, where the orders actually peaked quite nicely. We just need the Asian market to open up and Europe to stabilize a little bit more, and then we should be well, well on our way.

**Mircea Dobre:** Understood. My final question, again, if I look at your implied fourth quarter guidance, revenue, EBITDA, earnings – shouldn't we think of this as being really the baseline run rate for 2023? Any variances relative to Q4 that you would call out for us, Trish into next year?

**Tricia Fulton:** I think that the run rate – I don't know that we want to look at it necessarily as the run rate for 2023, but possibly heading into the first quarter. I do think that with all of these new products coming out that we have both in Electronics and Hydraulics, we're going to be able to drive additional top line revenue in 2023 that will get us above that run rate as we go forward. Certainly it could hold true for Q1, but not for the full year of 2023, given new products plus the new product rollouts that we have coming out at Enovation, which have been really years in coming with the relationships we have with those OEMs.

**Operator:** Our next questions come from the line of Nathan Jones with Stifel. Please proceed with your question.

**Nathan Jones:** I guess I'll follow on for Mig. Maybe we can talk about the parts of the electronics business that aren't Balboa. You talked about strength in marine and recreation, obviously exposed to consumer spending trends there. I think, generally speaking in the U.S. at least, there's a lot of complaining about inflation, but it hasn't really stopped for consumer spending at all yet. So, what are you guys thinking about the risk of those market slowdown as the Fed continues to raise interest rates and inflation you're generally going to bite into consumer sentiment. What's the risk that you see a drop-off in those businesses going into 2023 in your view?

**Josef Matosevic:** Yes. Nathan, on the Enovation side, knowing what we know now, those folks are having a really strong year. Again, what Tricia said earlier, our investments over the last two years in that product line, into the diversification, gives us a very strong confidence level that this journey will continue as the products are rolled out in 2023. As you know that business becomes very sticky for a minimum of 2 to 3 years, and then there's a refresh, and then it continues. So, we really feel very confident that Enovation will continue to grow with strong margins and have a very solid year as it stands right now.

**Nathan Jones:** So, your view is that the market share gains from new product rollouts in '23 can offset any end market weakness that you see for Enovation?

**Josef Matosevic:** Yes. The key comment is here, Nathan, for folks to understand is, as I mentioned this during our Analyst Day, traditionally Enovation has been a marine and recreational customers' supplier, and now we are really diversifying this into many other applications with that product line. That is the strength of Enovation going forward. It's no longer just a two key markets, it's an expanded broader market offering with much stickier solution, leveraging the entire technology play of Balboa, HCEE and Enovation. And on top of that, you have the hydraulics coupled in on the system sales side, it's truly a good deal here. So I see the headwinds, but I think we are very, very comfortable saying that Enovation will continue to succeed with very strong margins.

**Tricia Fulton:** Just to add on to that a little bit, Nathan. We're already starting to see some really good and interesting opportunities with the Open View displays that we have had a couple of press releases about through Enovation, and those are brand-new opportunities, and ones that we couldn't have gotten with our existing product line under the Good, Better, Best strategy. We're very encouraged by what we're seeing from the marketplace related to that specific new product.

**Josef Matosevic:** And in particular, Nathan, the two areas that you will see probably you folks will see, probably sooner than later, is the diversification into the energy market and the general industrial – what we call it. That's where our applications will go here next.

**Nathan Jones:** And clearly gaining market share in markets that you weren't in before is all incremental. Maybe we could just go on and talk a little bit about Daman. I know you guys were very excited when we were down there in September. Can you talk about the revenue and financial profile of the business now, what it adds to the fourth quarter, what the financial targets are for Daman over the next 3 to 5 years? I know you talked about getting it to $100 million of business and how you get from point A to point B on that?

**Josef Matosevic:** Yes, certainly. So, as you stated, we're really very excited about their product offering, but more importantly, the people and their technology and the engineering capability you know it's a very sound business, very profitable, diversified market that we were not in before. Sound relationships, financial performance for this year is really not material as we just closed this. What we expect over the next year as we continue to develop a very focused, or execute our very focused augmented strategy in terms of having Center of Excellence, diversifying and really closing in on the system sales application. We feel we can leverage the hydraulic segment with electrification and get to the $100 million number as we outlined in our press release. So next year, you will see a baseline run rate of anywhere between $35 to $45 million, $50 million type of range, and then it continues from there.

**Nathan Jones:** And the strategy to get to that $100 million, how you're leveraging the footprint with the legacy business, et cetera, in order to get to that $100 million? What drives the growth to get there?

**Josef Matosevic:** Yes, it's twofold. One is the organic application that we are just continuing to execute our manufacturing strategy with Center of Excellence. And 'in the region for the region', leveraging our Faster brand from Europe into North America, and then coupling our system sales application where we can do a system within the Daman footprint, and leveraging their engineering capabilities to do more into the diversified markets, and couple in other products in the hydraulics and electronics within the Daman four walls to get into the applications and markets they are currently serving. So, it's a combination, Nathan, between organic, new products, and there could be another flywheel acquisition that we add for electrification to speed the process up.

**Operator:** There are no further questions at this time. I would now like to turn the call back over to Tania Almond for any closing comments.

**Tania Almond:** Great. Thank you, operator, and thank you, everyone, for joining us today. We appreciate your interest in Helios and look forward to updating all of you on our fourth quarter results next year. Please feel free to reach out to me throughout the day with any follow-up questions. Have a great day and stay healthy. Take care.

**Operator:** Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

*Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Helios Technologies (HLIO) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (heliostechnologies.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for HLIO's announcement concerning forward-looking statements that were made during this call.*