

Operator: Greetings and welcome to the Helios Technologies Second Quarter 2019 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Karen Howard, Investor Relations for Helios. Thank you. Ms. Howard, you may begin.

Karen L. Howard: Thank you, Jerry, and good morning, everyone. Welcome to the Helios Technologies second quarter and first half of 2019 Financial Results Conference Call. On the line with me are Wolfgang Dangel, our President and Chief Executive Officer, and Tricia Fulton, our Chief Financial Officer.

Wolfgang and Tricia will be reviewing the results that were published in the press release distributed after yesterday's market close. If you do not have that release, it's available on our website at www.helios technologies.com. You'll also find slides there that will accompany our discussions today.

If you look through the slide deck, on **Slide 2** you'll find our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and may also during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables that accompany today's earnings release as well as in the slides.

Wolfgang will get started with summarizing key highlights for the second quarter of 2019. Tricia will go through the details of our financial results for the quarter and first half of the year, and then we'll turn it back to Wolfgang for his perspective on our outlook and 2019 guidance before we open up the lines for questions and answers.

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

Wolfgang H. Dangel: Thank you, Karen. Good morning, everyone.

I will start on **Slide 3**. We reported sales of \$144 million, a 6% increase over last year's second quarter. Our Custom Fluidpower, or CFP, acquisition drove the growth as the change in organic sales of our two segments, excluding currency, resulted in a 2% decline this quarter. Organic sales of our Hydraulics segments were flat, while our Electronics segment contracted by 7%. Currency also had an unfavorable impact during the second quarter as Tricia will report to you later.

We anticipated stronger sales from our Hydraulics segment as we had strong backlog going into the quarter and overall, our order rate remains solid. We also increased installed capacity of our Sarasota facilities in line with our expectations. However, the sales mix of CVT products did not align with maximizing that capacity. Basically, we have capacity constraints related to specific product families which impacted our productivity and resulting pace of output.

Accordingly, the revenue realized by that operation was lower than we expected, but we do anticipate sequential and year-over-year improvement next quarter. Despite this, we were very pleased with the quality of earnings generated this quarter. Tricia will provide more detail compared with the prior year, but allow me to comment on the sequential improvement over the first quarter of 2019. Our consolidated results as well as both operating segments reported improved gross margins and operating margins on lower sales than the first quarter. We have been focused on improving our profitability from a cost management perspective as well as a productivity perspective.

Turning to the bottom line, we reported \$17.3 million of net income. On a non-GAAP cash net income basis, that represents \$20.7 million or \$0.65 per share, up 5% and 3%, respectively, over last year on a comparable basis. Adjusted EBITDA was \$34.7 million, or 24.1% of sales.

Referring to the balance sheet and our leverage, our net debt increased \$10.5 million during this quarter, impacted by a \$17.8 million payment for the remaining earnout on our Enovation Controls acquisition. This was expected based on the business's very strong performance since its acquisition in December of 2016. We closed the quarter with a 2.4x net debt to adjusted EBITDA ratio and we continue to work towards our goal of less than 2x, which we anticipate achieving in the first half of 2020.

Please turn to **Slide 4** and I'll summarize the business highlights we achieved in the second quarter of 2019.

Our Electronics segment is realizing softness in the recreational and oil and gas markets and we are still implementing the project initiated in the first quarter where we amended some customer contracts to enable distribution of products to a broader, global and more diversified customer base. Additionally, coming into 2019, we knew that we are in between some major model year launches which we anticipate will roll out in the next couple of years. Our Electronics segment has been very successful at managing costs and improving productivity to weather the impact of this year's softer sales. We are achieving both sequential and year-over-year improvement in gross margin and operating margin to record levels in the second quarter.

I have a few updates to report on that impacted our Hydraulics segment.

On the previous slide I mentioned that CVT product sales were lower than anticipated due to sales mix. However, we did realize sequential gross margin improvement and we are well underway towards achieving our goal of at least 15% capacity expansion by the end of this year from our manufacturing facility consolidation project that we completed in the first quarter. Our engineering center of excellence project in our third Sarasota facility is continuing. As a reminder, it will house our global CVT research and development activities as well as certain administrative and operating activities and is expected to be complete by the end of this year.

I'm also pleased to report that our new facility in China, near Shanghai, opened and began shipping products in June, ahead of schedule. Initially, this factory will perform assembly and test for a selected range of products sold in the region. Over the next few years, we plan to further ramp up the value-add manufacturing within this facility for our regional customers, ultimately bringing complete cartridge rollout production capability to the Asian region. This strategic project strengthens our "in the region, for the region" initiative in support of demand in the growing China market where we continue to make market share gains. This new capacity is complementary to our facility in South Korea which we expanded last year.

Finally, I want to comment that we continue to make progress on our many projects driving the realization of our acquisition synergy goals. Specifically, with regard to Faster's manufacturing capability and capacity, we began production of CVT components at Faster facilities in both Europe and the U.S. which will ultimately drive efficiency and cost savings. Faster will produce six critical parts for high volume cartridge valves, initially representing a near term vertical integration cost synergy. We expect the cost savings will ramp up to full realization in mid-2020. This represents the first phase of CVT manufacturing in Europe in accordance with our "in the region, for the region" initiative. The next phase of this project will involve complete cartridge valve production capability for the European market.

To reiterate, all of these initiatives are important components of our Vision 2025 strategic plan to achieve global technology leadership in the industrial goods sector with critical mass exceeding \$1 billion in sales while maintaining superior profitability and financial strength.

With that overview, I will now turn the call over to Tricia to review the financial results for the second quarter and first half of 2019 in a bit more detail.

Tricia L. Fulton: Thank you, Wolfgang, and good morning, everyone. Let's begin on **Slide 6** with a review of our second quarter consolidated results. Sales were up \$7.6 million, or 6%, compared with last year's quarter. CFP drove that growth, contributing \$12.6 million. Our organic business sales declined 2% excluding the impact of changes in currency rates. Currency had a \$2.6 million unfavorable impact. The decline in organic sales was net of \$2 million of price increases.

I will now touch on sales by region, which are designated here in the sales bar charts on the left. There is a table in the back of the press release as well as the supplemental slides summarizing this information. As you can see, during the 2019 second quarter, APAC realized year-over-year growth whereas the Americas was virtually flat and sales in the EMEA market declined. With the addition of CFP, the APAC region is now a larger contributor to our sales base. Sales to the Americas, EMEA and APAC regions were 47%, 27% and 26% of the consolidated total, respectively in the second quarter. In the prior year quarter, this was 50%, 32% and 18% to the Americas, EMEA and APAC, respectively.

Regarding profitability, our consolidated adjusted EBITDA margin remained strong at 24.1%.

Turning to the bottom line, non-GAAP cash earnings per share were \$0.65, up compared to last year's second quarter. The adjustments to arrive at non-GAAP cash earnings consist primarily of acquisition-related amortization of intangible assets in this year's second quarter, as reflected in the reconciliation tables in the back of the slide deck and release. Last year's quarter included additional acquisition-related charges.

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

Sales for the Hydraulics segment grew 10%, driven by the CFP acquisition. On an organic basis, sales were flat excluding the impact of currency exchange rates which had a \$2.5 million unfavorable impact. The flat organic sales were net of \$1.3 million of price increases. From a geographic perspective, excluding the effects of currency, we saw 4% year-over-year growth for the quarter in the Americas region, but EMEA declined 4% and APAC was flat organically. CFP's \$12.6 million of sales benefited the APAC region. As Wolfgang mentioned, sales growth was limited during the quarter due to the unfavorable sales mix of CVT products which impacted production scheduling and output during the quarter.

Gross profit increased by 8% on the higher sales, but gross margin contracted modestly. The gross margin of our organic business expanded but was offset by the lower gross margin of the CFP business due to its value-add integrator business model which had a 150-basis point impact this quarter.

Hydraulics segment operating income decreased 5% to \$24.1 million. Higher selling, engineering and administrative expenses, or SEA, included \$2.3 million for the CFP business, as well as investments to support the growth and change in our Helios corporate structure.

Please turn to **Slide 8** for a review of our Electronics segment second quarter operating results. Revenue was down 7% compared to the second quarter of last year. The decrease was impacted by softer demand in the recreational and oil and gas end markets as well as the continued impact of releasing certain customer contractual obligations that we undertook in the first quarter allowing us to offer all products to a broader, global and more diversified customer base.

Second quarter gross margin increased to 45.8%, up from 43.4% in the prior year's quarter, driven by cost management efforts, production efficiencies and price increases.

Operating margin in the second quarter improved to 21.6% of sales, a 160-basis point expansion despite the lower revenue levels.

Please turn to **Slide 9** for a review of our first half consolidated results. Sales were up 25% over the same period of 2018. Faster and CFP contributed \$61.6 million of acquisition revenue and our organic business sales declined about \$500,000, excluding the impact of changes in currency rates which had a \$3.9 million unfavorable impact on consolidated sales of our organic businesses.

I will now touch on sales by region which are designated here in the sales bar charts on the left. Again, there is a table in the back of the press release as well as the supplemental slides summarizing this information. With the addition of Faster and CFP, the EMEA and APAC regions are now larger contributors to our sales base. For the first 6 months of 2019, sales to the Americas, EMEA and APAC regions were 47%, 28% and 25% of the consolidated total respectively.

Regarding profitability, our consolidated adjusted EBITDA of \$69.4 million increased 19% compared to the same period last year.

Turning to the bottom line, non-GAAP cash earnings per share were \$1.28, up 13% over last year's first half.

Please turn to **Slide 10** for a first half review of our Hydraulics segment operating results. Sales for the Hydraulics segment grew 39% compared to the 2018 first half. The growth included \$61.6 million of acquisition revenue contributed by Faster and CFP and 4% organic growth, excluding the \$3.6 million impact of unfavorable changes in foreign currency exchange rates.

Gross profit increased by 35% in the first half of 2019. This significant increase results primarily from acquisitions. The margin contracted due to CFP's business model, which had a 120-basis point impact on the first half of 2019.

The same drivers applied to Hydraulics operating income which increased 23% to \$47.9 million. Also, SEA increased mainly due to the Faster and CFP acquisitions which accounted for \$10.5 million of the increase.

Please turn to **Slide 11** for the first half review of our Electronics segment operating results. Sales for the Electronics segment decreased 10% compared with the 2018 first half. The decline was primarily due to softer demand in end markets, the intentional shift in customer base, and timing of model year rollouts.

The significant improvements in gross and operating margins were primarily the result of cost management efforts which drove production efficiency. Despite the lower revenue, gross margin increased by 370 basis points to 45.8% and operating margin increased by 130 basis points to 21.5%.

Please turn to **Slide 12** for a review of our cash flow and capitalization. In the first half of 2019, we generated \$36.2 million of adjusted cash from operating activities and \$20.8 million of free cash flow, which is comparable to free cash flow in the 2018 first half.

I want to explain that we used adjusted cash from operating activities because we added back the \$10.7 million of contingent consideration payment that was reported in the operating section of the cash flow statement. It represents the portion of the final Enovation Controls earnout that exceeded the acquisition date fair value of the liability. Since it doesn't pertain to current period operations, we added it back to arrive at this adjusted metric which we believe is more representative of our current period operating cash flow. The remainder of the earnout payment in 2019 is in the financing section of the cash flow statement.

The full amount of the contingent consideration, or earnout, that we paid in the second quarter was \$17.8 million. That was the third and final payment associated with the Enovation Controls acquisition. Given the strong performance of that business, the maximum earnout was achieved, demonstrating a win/win for all parties. The payment resulted in an increase in net debt during the quarter, which we had expected.

Our Capex was \$15.4 million, up from \$10.6 million in the first half of 2018. As planned, the increase was primarily for manufacturing technology enhancements including equipment for completion of our CVT

manufacturing consolidation project in Sarasota, machinery and leasehold improvements for our new China facility, equipment for our new CVT Engineering Center of Excellence, and also for the addition of the Faster business. Capital expenditures are still estimated to be between \$30 million and \$35 million for 2019.

Regarding capitalization, we finished the quarter with our net debt to pro forma adjusted EBITDA of 2.4x. With our strong cash flow profile, we are focused on getting that down below 2x, which we expect to achieve in the first half of 2020.

Wolfgang, I'd like to turn it back to you for your perspective on outlook and our 2019 guidance before we open the lines for Q&A.

Wolfgang Dangel: Thanks, Tricia. Please turn to **Slide 14**. There are several macroeconomic factors impacting our current outlook. Perhaps the most significant is the uncertainty surrounding several geopolitical regions, most notably relating to the U.S./China trade war and the future of Brexit. Foreign currency exchange rates have certainly been significantly impacted, with the U.S. dollar strengthening against many global currencies. We believe that the uncertainty is impacting decision making and slowing economic activity, which is affecting some of our end markets and geographies to varying degrees. On a sequential basis from the first quarter of this year, several end markets, such as global mining and U.S. construction, still demonstrated resilience. However, several of our other end markets, including recreational and material handling, have further softened. European agriculture remains weak as does oil and gas in the Americas. Most recently, we have started to see a decline in the construction equipment market in South Korea. Historically, that market has been a bellwether for our business.

Leading U.S. indicators currently suggest that we are in a slowing growth phase, confirmed by last week's interest rate cut. But the good news is that economic sources that we track continue to predict a soft landing. Around the world, nearly all major global economies are already experiencing either a slowdown of growth or negative growth. Specifically, Western Europe is in a mild recession and economic growth in China has decelerated. Again, the good news is that similar to the U.S., all the global economies are currently expected to recover relatively quickly.

I want to remind you that, as we have said before in accordance with our Vision 2025 plan, we expect to outpace macroeconomic growth. This is being driven by the investments we have been making to expand our coverage in the field, increasing and broadening relationships with OEMs, penetrating regions where we have white space, and continuing to introduce new and innovative products and solutions. Further, the actions we have taken to broaden from our traditional end markets into more diversified markets expand our ability to successfully weather economic cycles.

Please turn to **Slide 15** for our thoughts regarding our outlook for Helios for the second half of 2019. First and foremost, changes in foreign currency exchange rates are proving to be an even more significant headwind than expected earlier in the year. This has been further intensified by last week's tariffs announcement, causing us to reevaluate our forecast.

Regarding consolidated revenue for the remaining two quarters of 2019, we expect the cadence to follow a pattern that is similar to the first two quarters of this year.

In the overall macroeconomic environment, oil and gas, agricultural, recreational and most recently construction in the APAC region and material handling end markets are softening, which we have considered as we reevaluated our guidance for the year.

However, as I mentioned earlier, I want to emphasize that we are continuing to aggressively invest in innovative manufacturing technologies and market-leading new products. These investments are critical to achieve our strategic revenue and profitability goals. At the same time, in light of the growing economic uncertainty, we are challenging our cost base to provide us flexibility to navigate through the softening phase of the business cycle.

Referring to our Hydraulics segment, changes in currency exchange rates are a significant headwind this year. However, our strong backlog favorably impacts our CVT product sales outlook for the remainder of the year. Also, we are continuing to ramp up production output from our new facility that just opened in China in June.

Turning to Electronics, we have mentioned in the past that this segment is highly driven by OEM engagement and therefore product launches are not consistent on a year-over-year basis, affecting the quarterly comparisons. Also, our sales for this year are being impacted by the project initiated in the first quarter whereby we amended certain customer contractual obligations to allow us to provide all products to a broader, global and more diversified customer base. We remain confident in our proven go-to-market strategy with OEMs as well as our ability to optimize operational efficiencies in an effort to maintain the superior gross margin levels Tricia referred to.

Please proceed to **Slide 16**, where we've provided our updated guidance for 2019. Reducing our consolidated revenue guidance by \$15 million, or about 2.5% at the prior midpoint, our updated revenue guidance indicates 11% to 13% consolidated revenue growth over 2018.

We lowered our revenue guidance for our Hydraulics segment by \$11 million. A high percentage of that reduction is due to currency. We reduced our revenue guidance for our Electronics segment by \$4 million due to the softening markets.

At these lower revenue levels, our GAAP EPS is now expected to be between \$1.95 and \$2.05. Our non-GAAP cash EPS is expected to be between \$2.40 and \$2.50. Finally, our adjusted EBITDA margin is expected to remain very strong between 23.5% and 24%. We want to note that inclusion of CFP's lower margin integrated business model for all of 2019 is expected to have an approximate 70 basis point impact on the consolidated adjusted EBITDA margin, compared with last year.

Finally, I want to remind you that we remain committed to investing for long-term profitable growth throughout the business cycle to outpace the market growth as we work diligently towards our Vision 2025 goals.

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

Operator: [Operator Instructions] The first question is from Brian Drab, William Blair. Please go ahead, sir.

Brian Drab: Good morning, thanks for taking my questions. On the capacity constraints that you had in the business first, I'd just like to understand, how good is your visibility to the favorable mix shift in the second half of the year that's going to enable you to utilize that capacity better? And also, can you add capacity for the product categories that experienced the constraints?

Wolfgang Dangel: Let me start with the second question, Brian. The answer is yes, we still can and we still want to add capacity where we have the constraints. In general, just to refresh the memory, the Sarasota manufacturing site consolidation project was aiming at two significant goals. The first one was to increase capacity by 15% by the end of this year. We are well underway to accomplish or exceed that rate. The second goal was to streamline manufacturing and to improve productivity and, at the end of the day, also margins. Now, we are seeing sequential margin improvement, but not to the degree that we had expected due to this mix. This mix is simply a situation where, in some of the high-volume series manufacturing, we didn't see the full load compared to the lower volume and higher mix portion of the business. Over time, we expect that this will balance out, but that was not the case in the second quarter. We will continue to address the capacity constraints. Coming back to the second part of the question, the low volume/high mix areas are an integral part of getting to a total of 15% capacity increase by the end of the year.

Brian Drab: Okay, thank you. I know that in your longer-term goals, you had incorporated a mild recession. I guess we're getting it here now. Do you, at this point, view the 7% CAGR revenue growth that you were targeting for each of the businesses to be a little more aggressive now? Specifically for the Electronics

business, do you still envision that that it will be a \$200 million revenue business as you look ahead to that long-term 2025 target?

Wolfgang Dangel: First of all, we know that we operate in a volatile environment here, Brian. So, the compound growth numbers that we've outlined in between now and 2025 are still very realistic. There is no reason to move away from that. Neither for the Electronics business that you referred to, nor for the Hydraulics business. As you quite correctly said, we factored in a mild recession in between 2018 and 2025 anyhow. I think we have to see how this thing shakes out in the near term. Visibility is a little bit more difficult because of the extraordinary volatility that we have seen over recent weeks. Overall, we are very confident in the CAGR rates that we laid out.

Operator: The next question is from Joe Mondillo, Sidoti & Company. Please go ahead, sir.

Joseph Mondillo: Good morning, everyone. I first wanted to ask, just curious about the September 1st tariffs. How are you thinking about those, how much are they affecting you, what's baked into the guidance? Any color that you can provide on that would be great. Thanks.

Wolfgang Dangel: Joe, those specific new rounds of tariffs that go into effect on September 1 are not impacting us. However, it creates a lot of turmoil in the overall economic environment as we have already seen. So, obviously machine builders are very cautious now with triggering investments and probably taking a second look at Capex investment activities. So, it's the trickle effect of this uncertainty that is created with the next round of tariffs. Additionally, we still live, to a high degree, with significant exports from Sarasota for our global CVT business and we are concerned about the currency situation. As we saw over the last two days, it is shifting more from a trade conflict into a potential currency conflict and, as we pointed out in the script, we have some currency exposure that would have a negative impact. We feel confident that, based on the guidance we have given now, all of those factors and the degree of uncertainty the way that we can see it at this point in time, is embedded in the new guidance. I feel comfortable that we can accomplish the new ranges we have given.

Joseph Mondillo: Okay, a question on the CVT backlog. I was expecting the second quarter to be a little stronger considering your commentary on the first quarter call related to this backlog. But maybe some of it didn't come through in the second quarter. It sounds like, for the back half of the year, you're a little more positive than I was expecting and I guess it's because of the backlog. I'm wondering, how have the new order trends actually been at that business over the last several months? How have they trended through the month of July?

Wolfgang Dangel: First of all, I reconfirm what you are saying, I've also been disappointed. I expected a better manufacturing output in the second quarter, but due to the mix situation, as I explained, the output is what it is. We were still very pleased with the sequential improvement of margins that we are seeing, which leads us to believe that the project is leading us in the right direction. Now, coming back to your question, we still have a firm backlog and order rates are still reasonably high. They are softening and they are slowing down, no question about that, but I always prefer to do the comparison to the second half of 2016 when the economy started and diversified industrial businesses started to see acceleration of growth. Compared to those levels, we are still talking of elevated order levels. The other thing we are looking at is destocking. So, destocking is actually quite reasonable at this stage. There were more than in the first quarter, so they are certainly increasing, but it's not to a degree where we are getting concerned.

Joseph Mondillo: When you compare the order rates to 2017, are those also still up year-over-year?

Wolfgang Dangel: Yes, we are still above the order rates of 2017.

Joseph Mondillo: Okay, then last question. I just want to clarify the Sarasota capacity expansion and reorg just so that we're clear, because this reorganization project was finished at I think around April or May time

period. But you're still focusing on trying to expand the capacity. Could you just clarify what exactly is going on there? Because I wasn't anticipating many issues related to capacity at this point in time.

Wolfgang Dangel: Basically, the move from three manufacturing facilities down to two was physically finalized by the end of the first quarter or early April. However, we are still fine-tuning those lines to improve and streamline manufacturing processes, improve throughput and get productivity up, which was anticipated. There is nothing of the extraordinary. The lower output in Q2 is due to a mix issue. As you know from previous discussions, Joe, we can really generate great margins if we can fully utilize the installed capacity, in the high volume, large series manufacturing environment. We were not able to do that during Q2.

Joseph Mondillo: Okay, and the timeline to improve that is by yearend, correct?

Wolfgang Dangel: Yes, the timeline would be by yearend, so we want to be at the 15% additional installed capacity and then hopefully have a better balance. The better balance also has to do with orders coming in over the next 2 quarters. So, it depends on the category and type of orders that we are receiving, but there will be continuous streamlining and continuous improvement. Also, the sequential margin improvement in Q2 over Q1 is a sign in the right direction there.

Operator: The next question is from Jeff Hammond, KeyBanc. Please go ahead, Sir.

Bradley Vanino: Good morning, this is Brad on for Jeff. Just going back to that last point, the mix surprise. Do you expect sequential margin improvement in the third quarter? Is there any kind of push out of revenue from the second quarter to third quarter related to those constraints? Just anything round that, that we should be thinking about as we model the Hydraulics segment in particular?

Wolfgang Dangel: Well, Brad, the only thing we need to take into consideration is that output was a little bit below expectations. We couldn't deplete the backlog to the degree we had hoped for. So, the answer to your question is yes, that will be shifted in terms of output and revenue for Q3.

Bradley Vanino: Okay, then I wonder if you can just talk about how Faster performed in the quarter. It seems like a lot of the weakness is concentrated in Euro Ag. Are you seeing any kind of OEM pushouts in that region specifically?

Wolfgang Dangel: Considering the circumstances, with 2/3 of the Faster business tied to the agricultural markets, Faster actually has done reasonably well. We are happy with the performance of Faster from an operational perspective, but also from a sales and marketing perspective because they are continuously digging up new OEM opportunities, planting new seeds for business where we will be able to harvest them down the road. The Ag market is very tough as you know and yesterday's news of China basically stopping all U.S. agricultural imports is not helping. 38% of our total revenue for Faster is generated in the United States, but overall, the company is very well positioned and we are in a lot of encouraging engineering discussions with OEMS for projects down the road. We are not worried about the current situation. We are positioned very well for the future here.

Operator: We have a question from Mig Dobre, Robert W. Baird & Company.

Mircea Dobre: Thanks, good morning. It's actually more than one question. I'm looking to get some more color on the guidance and what you have embedded in the outlook. On Hydraulics specifically, can you help me understand what Fx drag is baked into your full year outlook at this point as you look at the growth number?

Tricia Fulton: A high percentage of the decrease in guidance is related to that. It clearly depends on where the exchange rates come in, but anywhere from 35% to 50% of that could end up being currency. We were just talking about Faster and while Faster's business is doing very well, currency is definitely hurting them in the translation from euros back into dollars for reporting purposes. So, that's a pretty big challenge for us to try

to forecast going forward, but we're looking at the current exchange rates as holding for the remainder of the year when we're making our assumptions.

Mircea Dobre: What I'm really trying to get at here, I'm trying to understand exactly on a core basis, excluding acquisitions, and excluding foreign exchange, what your guidance is for the year for Hydraulics. And I'm trying to understand how you are essentially thinking about the second half of the year compared to what we have seen in the first half in reported numbers, Tricia.

Tricia Fulton: I'm not sure what you mean excluding acquisitions. Are you saying excluding Faster in their entirety or just for the period that we didn't own them?

Mircea Dobre: I mean organic growth. I'm talking about organic growth. I'm trying to understand your organic growth guidance.

Tricia Fulton: On an organic basis, we're down slightly, flat to down slightly on the Hydraulics side. We really are challenged by some of the end markets and challenged by what Wolfgang was talking about, a little bit on the mismatch of the sales on the mix side.

Wolfgang Dangel: If you back out the acquisition impact and the expected foreign exchange impact, the organic Hydraulics sales would be in the range of 0 to -1% for the second half of the year.

Mircea Dobre: 0 to -1% for the second half of the year. Okay, that's helpful. In an environment in which you have 0 to -1% growth in the second half of the year, how should we think about gross margins compared to what you've done in first half or on a year-over-year basis, however you want to frame it.

Wolfgang Dangel: Overall, as we outlined here and as we have seen already in Q2, you see sequential improvement in margin. We continue to streamline manufacturing and, as I pointed out, we will still see productivity improvements. We have a couple of additional levers that will be beneficial for us. So, from a margin perspective for the second half of the year, we would still pretty much be in the same range where we are in the first half of the year.

Mircea Dobre: I'm sorry to fine-tune this, but I'm trying to understand this. In the first half combined? Or in the second quarter?

Wolfgang H. Dangel: In the first half, Q1 and Q2, Mig.

Mircea Dobre: Understood. And then on this question on backlog, is there a way to help us understand exactly how large your backlog is? I'm asking this because, per your own comments, and obviously for us that track your end markets pretty closely, we all know that there is deceleration going on here. It seems to me that your guidance is essentially supported by your backlog comments. Obviously backlog is important. How large is the backlog, first and foremost? And how has the backlog progressed year to date? Is it up sequentially? Is it down sequentially? What's going on here?

Wolfgang Dangel: You're talking about Hydraulics here, right? Backlog has plateaued during the second quarter of this year. With regard to the absolute backlog number, I will not give you any particular number there. We are not revealing that detailed information, because historically we are not a backlog driven company and this information is not helpful.

Mircea Dobre: Fair enough, but just from a color perspective so that we gain some level of comfort here, I mean my understanding of your business, on the Hydraulics side at least, is that this is a very short cycle business still. You don't normally operate out of backlog like some of the machinery builders and that has changed a little bit over the past maybe call it 18 months or so given what's been going on with capacity constraints. I'm trying to understand if the size of the backlog here is such to where you can actually ride out a

slower market environment? I mean do you have half a quarter's worth of production in the backlog? Is it more than that? Is it less than that? I mean how big is this figure?

Wolfgang Dangel: It's a mixture of both. When you say ride it out for the balance of the year, the backlog, as I indicated before, is solid enough to ride it out, even if the order trends continue to soften. If the order trends continue to soften beyond a certain degree, then you're eating too fast into your backlog as well and then we would struggle. However, we anticipate, based on the latest economic environment that we are seeing in those particular end markets, that the backlog is solid enough plus an anticipated order intake rate over the next two quarters will take us to the numbers that we have reflected in guidance here.

Mircea Dobre: Got it. Last question for me, in Electronics, if I'm looking at this segment, essentially your sales were kind of flattish sequentially second quarter versus first. And your gross margins were a little bit better sequentially. So that's good. When I'm looking at your guidance for the back half, it implies a sequential step down in revenue. So from a cost perspective, how do you think about the impact on absorption here? How should we think about gross margin on this slightly lower revenue base sequentially in the back half? Thank you.

Wolfgang Dangel: As we said, Mig, gross margins are really at a superior level in the Electronics business. If you saw, they were around 46%. That's probably peaking. It's unrealistic to expect any further improvement right there. To your question, we expect that those margin levels will hold up. Maybe not right at 46%, but they will hold up in the elevated range, probably somewhere in the range of 43% to 45% if we want to quantify that, at the lower sales level in the second half, given seasonality. Then the other factor that comes into play here is definitely we see more softening in the recreational end markets and the oil and gas markets that the Electronics business is particularly exposed to than we are seeing on the hydraulics side of the business. So, that's factored into this new revenue guidance for the Electronics segment as well.

Operator: We have a question from Nathan Jones, Stifel. Please go ahead, sir.

Nathan Jones: Good morning, everyone. Wolfgang, I'd like to talk a little bit about the revenue synergies. I know in the past, to achieve Vision 2025 and those upper single-digit revenue CAGRs, there's a big assumed contribution there from revenue synergies. So can you give us an update on the kinds of projects that you're working on, if any of those revenue synergies have materialized to date, and what your outlook is for those over the next few years?

Wolfgang Dangel: Yes, Nathan. As I pointed out, I'm particularly pleased where we are with regards to the revenue synergies here. After the acquisition of Enovation Controls in December of 2016, you might recall that we laid out a goal of generating \$5 million of incremental EBITDA by the end of 2020. I would basically segregate these four years into three categories. The first phase was probably the first one and a half years where we got used to each other, had some joint product development activities, developed one controller for the Hydraulics business that was quite a success. In phase two, which is the phase we are in right now, we are really digging up a lot of opportunity by basically featuring jointly in front of customers and talking about engineering projects. I'm particularly pleased with this phase two because I see the number of opportunities is increasing by the month. Phase three would be from now forward until the end of 2020, when we want to realize some of those synergies. So, regarding the original target, we are in a very solid position. It's reasonably fair to say already today that we will hit that number and even have a very good chance of exceeding the original target.

Nathan Jones: Okay. Then on this, in the Electronics segment, the change in the contractual obligations with a specific customer there that you made, clearly you would have expected to take some pain upfront and realize the benefits a little bit later on as you have the opportunity to sell those products to a broader part of the market. But obviously we're seeing some pain from that now. When do you believe that we should start seeing the benefit of that decision in terms of sell-through to other customers?

Wolfgang Dangel: Probably this will start to be seen by the end of next year for the first time, but then definitely in 2021 and 2022. I already pointed out during the Q1 earnings call that we have specific OEM projects. I was talking about four specific OEM projects at that point in time, which we expect to have SOPs and come to fruition in the given timeframe. That would be mainly 2021 and 2022. You are right, we are seeing the expected hardship on the frontend of this process, but so far, it's been going according to plan. We are excited about the additional opportunities that we are getting. So, I'm pretty optimistic this was the right thing to do and take a short-term hit for the mid- and long-term benefit.

Nathan Jones: Have you had the opportunity or do you think there is the opportunity to regain that customer's business even if those products are nonexclusive? Or do you believe that that customer is basically gone here on these products forever?

Wolfgang Dangel: It's very difficult to say at this point in time. We definitely are not banking on that. The full focus is on basically making these products and services available to a broader base of customers around the world because we also want to pay a lot of attention to spread these products globally and not just in one designated geography as has been the case in the past. We have given very little consideration to your specific question whether that customer might come back. If they do come back, under certain contractual circumstances, of course we'd be happy to serve that customer too.

Operator: [Operator Instructions]. There are no further questions at this time. I'd like to turn the call back over to management for closing comments. Please go ahead.

Wolfgang Dangel: Thank you for your interest in Helios Technologies and for your participation this morning. Also, thank you to all the hardworking Helios employees who are driving these results. We look forward to updating all of you on our third quarter 2019 results in November. Thank you very much and have a great day.

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