Operator: Greetings. Welcome to Helios Technologies conference call to discuss its acquisition of the Balboa Water Group. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tania Almond, Vice President, Investor Relations and Corporate Communications for Helios Technologies. Thank you, Ms. Almond, you may begin.

Tania Almond: Thank you, operator, and good morning, everyone. Welcome to the Helios Technologies announcement regarding the acquisition of BWG Holdings Corp., operating as Balboa Water Group.

We issued a press release earlier this morning. If you do not have that release, it is available on our website at www.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. Over the next few minutes, Joseph and Tricia will give an overview of the transaction and introduce you to Balboa, discuss the strategic fit of our 2 businesses and review the financials, 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 tomorrow in our 8-K to be filed with the Securities and Exchange Commission. You can find these documents on our website or at www.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.

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

Josef Matosevic: Thank you, Tania, and good morning. This is a very exciting day for the teams of both Helios and Balboa. For those of you who are not familiar with Balboa, they are an innovative market leader in electronic controls, with a proprietary and patented technology that include AC power capabilities within the health and wellness industry.

Strategically, this acquisition is an ideal fit for Helios in our electronics segment and checks all the boxes across our stated M&A profile objectives, including they are a niche technology leader that will broaden our technology offerings and capabilities, they will diversify our end markets, they have a strong management team and innovative culture with superior profitability, they are a successful standalone company, and we can leverage their engineering expertise.

The deal aligns entirely with our Vision 2025 strategy and will have very attractive financial returns for our shareholders from day one. We have agreed to acquire Balboa for $218.5 million, this represents an adjusted EBITDA transaction multiple of 9.3x based on 2020 estimates, excluding any synergies. Adjusted EPS is expected to be accretive from day one onwards, and Cash ROIC is expected to exceed Helios's WACC by the end of year one.

Potential synergies include: this being a catalyst to accelerate our expansion into AC applications, a platform to pursue new markets, a robust portfolio enables systems business sales with good, better, best options, and an opportunity to optimize our current supply chain and manufacturing operations in low-cost countries. The transaction will be funded through a combination of available cash on hand and existing and new credit facilities, resulting in an estimated 2020 net debt to adjusted EBITDA ratio of 3.4x. With our track record of cash generation and de-levering, we remain committed to a long-term net leverage target of less than 2x. We expect the transaction to close in Q4.

Some of you may be asking, why now? We have followed Balboa for a while, and the compelling reason why Balboa is an attractive addition to Helios include their proprietary technology which accelerates our ability to innovate, they expand and diversify our addressable end markets, they bring low cost manufacturing we can leverage for margin expansion, it is a solid business with track record of financial execution, it provides upside from cost synergies and their focus on technical and personal excellence is a strong cultural fit within Helios and Enovation. Bottom line, Balboa strengthens Helios.

With that, I will turn it over to Tricia.

Tricia L. Fulton: Thanks, Josef. **Slide 6** gives you a snapshot into Balboa's business. They have a global footprint with approximately 80% of sales-focused on the North American health and wellness market. They have leading market positions in their largest 3 product categories. Balboa has a complete software and hardware portfolio, allowing it to provide an integrated end-to-end solution to OEMs, and with the new state of the art facility in Baja, Mexico, that they utilize for their manufacturing operations establishes a sustainable cost advantage. Not only do they have the technology but they have built a nimble operation to provide very customer-specific customization that create an embedded relationship with the OEMs. They continue to supplement their customer moat with best-in-class product reliability and exceptional customer service. All of these things resonate with our way of doing business at Helios.

Balboa has demonstrated strong organic growth of 4% historically, and secular trends support continuation of mid-single-digit growth going forward. Balboa's growth has been more closely correlated to remodeling and renovation or R&R spend versus single-family housing starts, providing a source of resiliency versus typical industrial end markets. This correlation has been a strong benefit during COVID, where consumers have increased R&R spend. This has contributed to a stronger 2020 performance which is expected to continue into 2021 with low double-digit growth. Beyond 2021, we expect returns back to mid-single-digit levels, more in line with long-term growth expectations.

Balboa adds scale and further diversification to the Helios portfolio. As discussed earlier, Balboa expands the electronic segment product portfolio mix to help achieve Helios's vision of smart integrated software/hardware solutions. Lastly, Balboa provides diversification by adding the attractive health and wellness market.

Balboa as a base business is a great addition. Combined with Helios' Enovation Controls platform, it's truly exciting. Balboa addresses 2 key opportunities: number one, it expands electronics TAM with AC technology offerings; and number two, it increases our ability to penetrate existing accounts with a broader range of price points within the portfolio. Enovation has primarily served end markets which run on DC power sources. Some of the industrial end market adjacencies are moving to smarter controls, which is what Enovation is a leader in. However, they require a product that is compatible with AC power sources. The most common example is equipment that needs to be plugged into the wall or connected to the power grid. This will accelerate Helios' ability to develop AC-focused smart control solutions that Enovation is not presently offering. Additionally, Balboa rounds out Helios' controls offering to more efficiently provide a controlled solution at a price point that works for the specific application. We refer to this as a good, better, best offering. A key enabler to this is Balboa's established low-cost manufacturing footprint.

Individually, Helios and Balboa are strong businesses; together, there is an exciting ability to unlock value for customers, which will ultimately benefit our stakeholders.

As Josef stated in the beginning, Balboa really fits within our M&A framework like a glove. First, Balboa has strong strategic rationale that will augment the Helios portfolio; second, Balboa is entirely aligned with our Vision 2025; third, the business enhances Helios's financial growth profile, contributes to cash generation and creates value for shareholders from day one.

As mentioned earlier, Helios plans to fund the deal with a combination of cash on hand and existing and new credit facilities. Pro forma 2020 estimated leverage represents 3.4x net debt to adjusted EBITDA. Helios has demonstrated strong cash generation and de-levering ability historically and remains committed to our long-term net leverage ratio of less than 2x.

Josef Matosevic: Thank you, Tricia. Ultimately, the Balboa acquisition will continue in the Helios tradition of creating value for all stakeholders. For customers, we believe that the Balboa business will increase our speed to market, further round out our portfolio and reach a broader range of applications. For employees, this represents an opportunity to work with an innovative growing company where you can learn about other markets and products and benefit from deeper resources around training and practices. For shareholders, the base Balboa business represents a solid return on capital with an attractive upside from synergies, and we remain committed to maximizing long-term value through balanced capital allocation.

A few comments before we open it up for Q&A. This is another step in the execution of our Vision 2025 strategy. This addition of Balboa significantly increases the size of our electronics business with leadership in new niche markets. Combined, we believe both electronic businesses can realize higher growth and deliver strong operating leverage to expand margins. Importantly, we are diversifying our business with complementary products and end markets. Financially, the transaction is expected to create significant and immediate value for Helios shareholders.

I am really looking forward to working together with our new colleagues at Balboa, and I'm excited for the path that lies ahead of us.

So at this time, we are ready to take any questions.

Operator: Our first question is from Jeff Hammond with KeyBanc Capital Markets.

Jeff Hammond: So, just maybe just talk a little bit more about synergies on the path to 20% margins? Is it leveraging low-cost facilities or sourcing? Or is there some overlap with Enovation? And what do you see as the long-term margin opportunity beyond 2021?

Josef Matosevic: Yes, certainly, Jeff. Appreciate the question. We have planted the seeds now, a few weeks ago, that we are really trying to diversify our end markets and create the separation here by coming out of the COVID-world and really strengthen our margin. Balboa on its own is already extremely profitable, and we have, by design, not included the margin percentages. They are not fully baked yet. But, we have a good idea of what we can gain from it, and it's not just on the electronics side. We can leverage the low-cost manufacturing throughout all our business units, if it's Faster or hydraulic segment, pretty much concentrating on low complexity assembly. And there will be a catalyst to further improve the margins in a pretty significant way. So, we're still working to create value through streamlined processes in a very fast 6, 7-week process. The margins are real, they're very attractive, and the plans are to fully leverage all Helios companies into a low-cost approach where it makes sense. I fully anticipate that as we schedule our Investor Day next year in Q1, we will be able to outline a margin journey that will answer the bell on the investor front.

Jeff Hammond: Okay. Great. And then can you just talk about what's been driving the double-digit growth this year and next?

Josef Matosevic: On the Balboa side?

Jeff Hammond: Yes.

Josef Matosevic: when you follow the trend in the NPI funnel, they're really creative and very innovative. They participate in strong, stable markets in the health and wellness industry. And so a couple of things, one, is the breakthrough products that really fit with customer needs. While at the same time, when you look at the population, they're not traveling, they're not going on vacations, they're investing in their own homes and investing in their health. When you really understand Balboa, you see that they participate in many different areas of health and wellness with their products. So that's kind of the largest driver. Though we don't disclose amount of backlog, they're really well positioned into 2021, as well. So those are kind of the key drivers, Jeff.

Tricia L. Fulton: Yes. Jeff, I just wanted to also add that on a secular basis, we believe that ongoing, with all the baby boomers coming in, this health and wellness trend will continue, even though we've seen a bit of a bump from COVID, on a secular basis, it seems like everything is pointing in that direction as well.

Operator: Our next question is from Mig Dobre with Robert W. Baird.

Mig Dobre: I actually have quite a few questions, but I'm going to keep it down to 2 as required. I guess, I'm just looking to clarify what the financials are here. You have it here in the slide, sales in 2019, $112 million. But am I to understand that in 2020, we're talking meaningfully higher sales and 20% EBITDA, is that something that you expect for this year? Or was this like last year's EBITDA margin? I'm trying to understand exactly how we got to this 9.3x multiple price.

Tricia L. Fulton: Yes. So the revenue is about $118 million we estimate for 2020. Clearly, we still have some period of time to go there. And as Josef pointed out, there's plenty of backlog. So it's going to depend on how much we can ship. The 20% EBITDA is on this year's numbers. So, that backs into an EBITDA of about $23.5 million for this year. When we look at 2021, we are looking at low double-digit growth on the top line, which should also expand the margins a bit. We probably have some investment to do that would maybe tamper that a little. But we're expecting some nice growth into 2021, given what they're seeing in the markets right now.

Mig Dobre: Okay, great. That's helpful. And then look, to be perfectly honest, I don't know much about this health and wellness industry, especially when it comes to things like spas and such. So maybe you can educate me a little bit as to who the primary customer is here. Is this just individuals buying product for their own home? Is this more professional sort of spa type outfits that are buying this? So is it commercial? Or is it residential product? And then, is there a way to talk about the size of the market here? On **Slide 6**, you've got, call it, $1,000 to $2,000 of content per unit. I mean, how many units of this kind of stuff gets sold every year in the U.S.?

Tricia L. Fulton: Yes. So on the customer side - I think it's good if we move to **Slide 6**, if you have the slides in front of you. - you can see on the bottom right-hand corner, the products that they're using or that they're producing. And this is really the electronic controls that are going into the spas and therapy spas and therapy pools. So they're primarily, from our perspective, an electronic controls company that are operating in the health and wellness industry. They're providing these products and all the products that you see on the top part of that chart that are connected into the electronic controls, like the hoses and the jets and things like that, their electronic controls are controlling all of that. They're providing those to manufacturers of the equipment of the spas. So they're not actually making the spas, they're providing the electronic controls and the items that are being controlled by the electronics to large producers and manufacturers of health and wellness spas.

Mig Dobre: Right. But my question, I guess, still stands, who buys these spas? Is this a commercial product? Or is this a residential product? And what's the size of the market here for these controls?

Tricia L. Fulton: Yes. It's primarily the residential market that the ultimate end product is going into. We have looked at the addressable market as about $600 million of the health and wellness industry, specifically in the products that they're producing and selling into.

Mig Dobre: Okay, and if I may, one follow-up? As you think about these controls, and you're talking about the health and wellness industry, which, to me, implies more than just spas, where do you see the adjacencies? Or what's kind of the long-term vision in terms of tackling additional verticals?

Josef Matosevic: Yes, that's a key question here. As we look at Enovation, and as you well know, Enovation largely participates in the recreational market with pretty much the same level of application that Balboa does in the health and wellness. And as we laid out our diversification strategy to enter other markets, we knew we had some gaps in our product offering and we also had a gap in an AC powered product offering. So when you look at the entire investment that is required to get us there, to diversify Enovation in other industrial markets, as you mentioned earlier, whether it's the food service market or specialty vehicles market, or HVAC market, you name it, we needed AC-powered solutions to enter those markets. It would have taken us too long and would have taken quite a bit of investment and time to develop that, where Balboa bridges the gap. Their products genuinely fit like a glove for us to enter those markets as we strategically laid out. So, when you look at Balboa, what I would like you to think about is that you have a base business that is somewhere balanced between commercial and residential, say 70/30, the market is around $600 million to $800 million. They will continue to leverage sales in those markets, and we will merge the two engineering centers to develop the products we need to diversify. Balboa will continue to innovate to expand in the health and wellness markets with both product lines. So, it's a combination of going into the market with a much different product offering and both power options for controls, and also have a full system offering that can be leveraged in other areas besides just Enovation. You can bridge over into our hydraulic segment and into our Faster segment. So, it's a really new journey here, Mig.

Tricia L. Fulton: And I think that we're looking at this as a couple of things: one, a really strong base business that Balboa already has and a growing base business to continue to grow in that is their addressable market. But really the opportunity for us is the ability to create opportunities in new end markets that we are not in that can utilize the AC power when we bring the engineering teams together. So, there's a lot of opportunity, both on the Balboa side, but also in some new end markets, as Josef laid out.

Operator: Our next question is from Josh Pokrzywinski with Morgan Stanley.

Josh Pokrzywinski: A couple of questions from me. And I guess following up on the last question, and the ability to leverage what you have here in Balboa into some other areas, how specialized is the channel, the sales force, anything else that we need to keep in mind that would maybe kind of say, okay, you have the technology piece, but there are other barriers to getting into some of these new markets because the spa market seems awfully specific. But I think maybe some of that's my own ignorance. And so if you wouldn't mind just kind of talking about what that leverage process would look like.

Josef Matosevic: Yes, Josh. So the leverage for us here from a Helios standpoint, and also the return to the shareholders, is the selling cycle, right? It is not so much market-specific where we sell into versus the products we have and the features associated with hardware and software applications. Merging those products with our innovation capabilities gives us the full system offering to enter any markets we want. And obviously, we are in the industrial sector. Enovation also has application to enter the health and wellness market, which is pretty large and continues to get larger, as Tricia mentioned earlier. So the diversification components of separating ourselves from a Helios perspective from the competition is, we will be able to enter the market with a full system solution of the hardware-software application and develop that control vehicle that we can really pick any market we want together, and get there fast.

Josh Pokrzywinski: Got it. That's helpful. And then I understand this is maybe a little bit perspective, and not everything gets over the finish line. But as you look at the pipeline today, would you say more opportunities like Balboa, where maybe it's a little outside of what Helios currently does, but expands the TAM, or is it more kind of consistent with where the historical portfolio would look like?

Josef Matosevic: Yes, Josh. Helios is a very successful company, obviously, operating with two key segments. But as I mentioned earlier, as we went through my first 100 days, the team and I and looked at our Vision 2025 strategy. We knew we had gaps in the system, and the key was all 3 business units operated somewhat independent, which is good and highly profitable. But, we really didn't leverage much as a company. As you look at our current customer base, and the needs going forward and what is changing in the market, the customers are also asking for consolidating and rightsizing the supply chain, which OEM suppliers will step up to the plate and create a, so to say, a subsystem solution where it's needed. And I keep on coming back to a very simple example. If you have like a C&H tractor or AG Tractor or a John Deere Tractor, it has hydraulics, it has couplings and it has controls, right? And currently, they have many different suppliers attacking that area, but there's really no one in the market who has the full system offering, and neither did we. Balboa brings that to us, right? We can leverage that product line, merging it with Enovation and with Faster and with our CVT business and really get into these markets really fast, really quick. That's kind of the power of that acquisition.

Operator: Our next question is from Brian Drab with William Blair.

Brian Drab: The first question, I just want to clarify, because you have a target of getting to 20% EBITDA margin by the end of next year. I must be doing the math wrong, but I'm curious, the purchase price is $2.19, the multiple is 9.3. So EBITDA is $23.5 million in 2020, I think. And Tricia, I think you just said $118 million in revenue, so we're at actually exactly 20% EBITDA margin right now in 2020, if I'm doing my math the right way.

Tricia L. Fulton: Yes, that's correct.

Brian Drab: So we're at 20% and trying to get to 20%. So, can you help me reconcile that?

Tricia L. Fulton: Yes. We know that we have some investments that we'll probably need to make, and we can probably exceed the 20% for next year by a little, especially with the higher top line that we expect to be bringing in. But their costs are a little bit different than our other businesses and they have a lot higher portion of variable cost. So they don't get quite as much leverage on the fixed cost side, but we should be able to exceed that 20% for 2021. But again, strong margins this year, and we expect the strong margins to continue next year as well.

Brian Paul Drab: So there's some investments that you'll make in this business that will offset some synergies, but the net result should be probably better than 20% margin for this business. Is that correct?

Tricia L. Fulton*:* Yes, that's a good assumption.

Brian Drab: Okay. And then you've done a good job explaining how you're going to be able to integrate this and benefit your other businesses. But I'm just wondering if we could take it, I don't know, to the next level, sort of in terms of like being specific about it, just so we all can picture how do you take Balboa's technology and use it in a heavy-duty application? Like, I know you talked about the difference between AC and DC. So I presume the current controls are being powered and operating on DC, but what is an AC, maybe one or two specific examples of what AC enables within the heavy-duty market or your other end markets?

Tricia L. Fulton*:* Yes. We're looking at some new end markets that can really benefit from this technology, the most, things like HVAC and commercial food service. But certainly, with the good, better, best strategy that we rolled out from a product perspective, we can also take some of their current products that are running on AC, convert them to DC and not have to use all of Enovation's technology and background in that to put it into things like mobile equipment, where maybe the current Enovation product is a little bit too sophisticated and we can use these good and better products for applications like that.

Brian Paul Drab: Okay. So the AC, as you're saying, is sometimes almost the lower end or good product versus the high end, better product, which is on DC? I just can't picture why I need AC if I'm selling to Caterpillar or someone? What do they need AC controls for?

Josef Matosevic: So, it's a different power source for the application you need and what you're going to do with the end user equipment, right? It lowers that cost, but it protects our margin. It still has the same functionality, but it becomes more of a plug-in play versus a sophisticated assembly, and it fits in within their design. But I would like you to think much broader than just the Ag segment. For an example, there's many different industries out there that require that application. Like Tricia mentioned, it's commercial food service or HVAC or specialty vehicles or fire trucks or ambulance trucks. All those have been powered through the power sources that we are acquiring here, and we can leverage as a system.

Operator: Our next question is from Jim Sheehan with Truist.

James Sheehan: So historically, Helios' sweet spot has been in the valves and brains, and I guess you have some other related core competencies. How does getting into pumps and heaters with Balboa fit into your core competency, which is the valve and brains? Is this a true adjacency in any sense? Or should we think of this as moving into entirely new markets, so you can access those new markets?

Josef Matosevic: That's a great question. So the core of Balboa is obviously, the control systems. But they do have, as you mentioned, other products they're currently selling to the end customers. You mentioned a pump, for an example. As we look at Enovation, and as we look at what our controls do with boats, for example, filling up ballast tanks and what have is every boat has 2, 3, 4 pumps, right? So those pumps that Balboa has can also be leveraged into the recreational market of Enovation, but this is a smaller piece of our business. The largest piece is pretty much the control system that we're acquiring and creating the center of engineering excellence between these two companies to get that good-better-best strategy with superior margin.

James Sheehan: And could you talk about what your maximum net leverage is under your credit agreements and when do you expect to get back to the target net leverage of under 2x?

Tricia L. Fulton: Yes. So our maximum after an acquisition is 4x, without an acquisition, it's 3.5x. But, if there's an acquisition in play, we can go up to 4x. Clearly, our goal is to get back down below 2x as quickly as we can. We have very strong cash generation capabilities and have a proven history of being able to repay the debt with that cash flow. Our intent is to be able to do that as quickly as we can, recognizing that we still want to be able to make investments in the business across all of Helios that are needed, but we'll be working back down towards that 2x as quickly as we can. And we were almost there at the end of June on our reported numbers, though this will clearly take us back up above that. But that's our continued goal.

Operator: We have reached the end of our question-and-answer session. I would like to turn the call back over to management for closing remarks.

Josef Matosevic Thank you. Just one final comment here. I want to extend a very sincere, genuine thank you to my entire team. They have been working around the clock. It was a very fast process. So once again, folks, a big thank you from all of us for a job well done.

Tania Almond: Thank you, everyone, for joining us on short notice, and we look forward to talking to you again soon. Have a great day.

Operator: Thank you. This does conclude today's conference. You may disconnect your lines at this time, and have a pleasant day.