Tania Almond

Thank you, operator, and good day everyone. Welcome to the Helios Technologies Second Quarter Financial Results Conference Call. We issued a press release announcing our results yesterday afternoon. If you do not have that release, it is available on our website at hlio.com. You will also find slides there that will accompany our conversation today.

On the line with me are Josef Matosevic, our President, and Chief Executive Officer; and Tricia Fulton, Executive Vice President, and Chief Financial Officer. They will spend the next several minutes reviewing our second quarter results, discussing our progress with our augmented strategy, reviewing our updated outlook for the second half of 2023, 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 have been provided in our latest 10-K filing as well as our upcoming 10-Q to be filed with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I'll also point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP with non-GAAP measures in the tables that accompany today's slides. Please reference **Slides 3, 4 and 5** now.

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

Josef Matosevic

Tania, thank you, and thanks to everyone joining us.

Our global team has stepped up to the plate and delivered. We had strong sequential growth in the quarter with revenue up 7%, including 6% organic growth over Q1. Operating margin increased 140 basis points, while we continued investing to integrate our acquisitions and expand our capacity to meet growing customer demand. This translated to our bottom line increasing 21%. THANK YOU once again to our global team for their great performance.

We have methodically invested over the last three years to develop or acquire new technologies, close product gaps, fill in geographic white spaces, and drive opportunities for growth by expanding our addressable end markets. All this work is on the verge of bearing fruit. Currently, we are in our next phase preparing for another growth cycle, and we are accelerating this transition. Our customers’ appetite for our new offerings is rapidly building.

We want to be ready to address the indicated interest. As such, we are pulling forward investments and project timelines to enable this new capacity to take on “step change” growth starting in 2024.

Our innovation and engineering excellence is the lifeblood of this organization. In the quarter we closed our acquisition of i3 and we are already far along with the integration of i3’s remote field service platform into Helios solutions. As a result, recurring revenue could start to show up in our P&L as early as next year.

Helios continues driving technological breakthroughs and we are well positioned to capitalize on many megatrends with our solutions. These include electrification, reducing emissions, and creating more energy-efficient solutions while continuously improving user interface. Our long-term outlook at Helios is very bright!

In the short-term, we are faced with some near-term challenges for the second half of 2023. We are seeing a slower-than-expected recovery in APAC. About 40% of our CVT hydraulics volume goes through APAC with two of our largest distributors located there. In North America, the distributor inventory levels have been trending in the right direction since the end of last year, but also a bit slower than expected.

Additionally, our hydraulics colleagues in Europe, dealt with a plant fire in the second quarter. Then in July they had to endure a tornado, hailstorm, and flooding. I am grateful to report all our teammates are safe…which is most important. These macro issues combined with the natural disasters is pressuring our top line for the second half. As a result, our near-term visibility is in fact less clear than our longer-term outlook. We are adjusting to current conditions while continuing to prepare for what we believe will be a very healthy 2024.

Before I turn it over to Tricia to review the financials, I would like to wish her well on retirement. Tricia has been a cornerstone for our Company during her 26 years of service, 17 of which serving as the CFO. On behalf of the board and the entire company, I would like to express our gratitude for her significant contributions. We wish her the best in her next chapter of life…

Starting tomorrow, Tricia passes the baton off to our new CFO Sean Bagan. Sean joins us most recently from a 23-year career with Polaris. He has a proven track record of building, growing, and transforming global businesses into highly productive and profitable operations. We are excited to welcome Sean to the Helios family.

I will now turn the call over to Tricia to review our financial results for a final time. She will then hand it back to me for closing comments.

Tricia, please.

Tricia Fulton:

Thank you, Josef and hello, everyone. **On Slides 6 through 10**, I will review our second quarter 2023 consolidated results.

We continued to deliver solid sequential improvements with revenue up 7%. Profitability also improved sequentially with operating income and net income up 19% and 21%, respectively. Adjusted EBITDA expanded 170 basis points and free cash flow was up $15 million or 475%. We were able to deliver these results even as we drive investments in our future.

By market, Australian mining began a recovery and grew significantly in the quarter both sequentially and year-over-year. Encouragingly, Health & Wellness increased more than 20% over the first quarter continuing to build off the floor we hit in the fourth quarter last year. Agriculture, a large end market for Helios, saw robust growth in the quarter over the year-ago period and modestly improved sequentially. Recreational sales had a solid quarter with high single digit annual growth and double-digit sequential growth. There were mixed results within the Mobile market - with specialty vehicles and construction being the top performers sequentially. As you might imagine, we can have variability from quarter to quarter within our markets.

Our strong revenue growth over Q1 23 was driven by the Electronics segment which was up 15% while the Hydraulics segment was up 3%.

Year over year, Hydraulics was up 7% and, if you exclude Health & Wellness, Electronics increased 5% over last year's second quarter.

Geographically, we saw growth across all regions sequentially, led by the Americas at 10%, EMEA with 4% growth and APAC at 3%. Compared with last year, revenue decreased both in EMEA and in the Americas by 5% each and by 10% in APAC reflecting macroeconomic conditions. Overall, we had nominal unfavorable FX impact on revenue of $0.3 million in the quarter.

Sequentially, gross profit grew 7% and gross margin was unchanged over the first quarter. As we would expect, on a year-over-year basis the lower volumes impacted our gross profit. The benefits of pricing net of material cost increases, acquisitions and improved direct labor efficiency on gross profit were offset primarily by lower volume.

Our SEA expenses sequentially were down slightly, but up $5.5 million, or 17% compared with the second quarter of 2022. As we have discussed, we are investing heavily in our growth plans and incremental SEA related to acquisitions, integration, growth, and new product development which are driving the year-over-year increases. As I mentioned, Adjusted EBITDA increased 16% sequentially and Adjusted EBITDA margin of 22% was up 170 basis points over the first quarter level. Even as we make growth investments, we deliver top tier EBITDA margins as an industrial technology company.

Our effective tax rate in the second quarter was 22.9% up slightly from the prior year based on the mix of earnings in various jurisdictions.

Diluted non-GAAP cash EPS of $0.81 in the quarter reflects the impacts I've discussed as well as a 9-cent impact from higher interest expenses compared with last year.

Slides 9 and 10 provide visual trends on overall key metrics for the past several quarters. We estimate that supply chain constraints delayed $14.2 million in sales at quarter end, up sequentially from $12.4 million and down from $15.1 million in the year-ago period.

On **Slide 11**, you will find the highlights for our second quarter Hydraulics segment. Sales grew 7% over the prior year period. Acquisitions added $15.2 million. Sequentially, this segment grew 3% over Q1 23.

Gross profit increased modestly driven by price, efficiency, and acquisitions, partially offset by rising material costs. Gross margin this quarter decreased 210 basis points compared with Q2 22, primarily due to rising material costs and margin profile of acquisitions.

SEA expenses increased by $4.3 million, or 23%, year over year. The increases were driven by acquisitions as well as growth investments.

Please turn to **Slide 12** for a review of our Electronics segment. This segment is more concentrated in the U.S., so foreign currency usually does not have much of an impact.

Sequentially, as mentioned, we had 15% growth in this segment. Annually, Electronics sales decreased by 24% to $75.2 million as demand across all regions declined primarily related to the softness in the health and wellness market. Excluding health and wellness, electronics grew 5% over last year driven by recreational, mobile, and agriculture markets.

The Electronics' gross profit of $26 million grew 24% sequentially and gross margin expanded 260 basis points. Year over year, lower gross profit reflects the slowdown in the health and wellness market. Gross margin increased 150 basis points over Q2 22 due to favorable sales mix and material costs.

SEA expenses increased sequentially 4% over the Q1 23 level.

Please turn to **Slide 13** for a review of our cash flow. We had strong cash generation in the quarter with $28.8 million in adjusted cash from operations. Cash and cash equivalents were $37.5 million, providing us sufficient liquidity.

CapEx of $10.5 million was 5% of sales for the quarter, at the upper end of our expected range to support our growth and expansion plans.

Adjusted Free cash flow was $68.8 million on a trailing twelve-month basis with a conversion rate of 100% compared with 79% for the full year 2022.

You can see on **Slide 14** that we have a solid balance sheet and financial flexibility to execute our strategy for growth. Total liquidity at the end of the quarter was $221 million. Our net debt to adjusted EBITDA leverage ratio was 2.7x ending the quarter.

As you know, we have a well-established track record of managing our leverage ratio as we execute on our acquisition strategy. As we increased above our target level for recent acquisitions, we have been able to quickly de-lever back to or below our target leverage ratio of 2 times based on our cash generation.

Before I hand it back over to Josef for a review of the outlook and closing comments, I would like to express my gratitude to each and every member of Helios, past and present for their role in what has been a rewarding career for me. I have had the honor and privilege to work with so many exceptionally talented and brilliant people through the years. I also want to thank all of you on this call as well for being with me on this great journey. Importantly I have great confidence in the future of Helios, the power of our strategy and the capabilities of the team to execute on them.

Please reference **Slides 15 to 17** as I hand it back to Josef.

Josef Matosevic:

Thank you much, Tricia. Again, we truly appreciate your dedicated service first to Sun Hydraulics and then to Helios over so many years.

We are moderating our outlook for the second half of the year, given the factors I mentioned that have reduced near-term visibility.

We now expect revenue in the range of $880 to $900 million, implying the second half will be similar to the first half. We expect more weighting in the fourth quarter versus the third. As a result of the accelerated capacity expansion, we are investing over $10 million. With these revenue and investment expectations, we are moderating our adjusted EBITDA targets for this year to $187 to $196 million…still a healthy 21% to 22%. We intend to get to the mid-twenties and beyond on Adjusted EBITDA margin over time, but we are downshifting our gears in the short term to absorb the one-time and macro factors and build momentum to climb our next growth slope.

There are clearly a lot of great things coming together at Helios. We are executing against the pillars of our business system. The second quarter demonstrates our ability to protect our business and margins while investing for the future. As we think and act globally, we efficiently leverage our expanding footprint through our new regional Centers of Excellence. We are diversifying our end markets and revenue through our new innovations and solutions to grow wallet share. While our team continuously demonstrates their dedication and tenacity to our shared purpose, we develop our talent by fostering a diverse and customer-centric learning organization.

We have our sights set on driving shareholder value far into the future. As I said earlier, our future is very bright!

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