

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-21835

HELIOS TECHNOLOGIES, INC.

(Exact Name of Registration as Specified in its Charter)

FLORIDA
(State or Other Jurisdiction of
Incorporation or Organization)

7456 16th St E
SARASOTA, FLORIDA
(Address of Principal Executive Offices)

59-2754337
(I.R.S. Employer
Identification No.)

34243
(Zip Code)

(941)362-1200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$.001 Par Value	HLIO	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 33,052,989 shares of common stock, par value \$.001, outstanding as of October 27, 2023.

Helios Technologies, Inc.
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For the quarter ended
September 30, 2023

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.
Helios Technologies, Inc.
Consolidated Balance Sheets
(in millions, except per share data)

	September 30, 2023 (unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 35.2	\$ 43.7
Accounts receivable, net of allowance for credit losses of \$2.0 and \$1.5	131.2	125.1
Inventories, net	208.7	191.6
Income taxes receivable	10.1	10.2
Other current assets	25.0	17.9
Total current assets	410.2	388.5
Property, plant and equipment, net	220.3	175.7
Deferred income taxes	2.1	1.6
Goodwill	502.7	468.5
Other intangible assets, net	426.4	405.6
Other assets	28.9	23.8
Total assets	\$ 1,590.6	\$ 1,463.7
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 65.0	\$ 73.7
Accrued compensation and benefits	19.2	21.1
Other accrued expenses and current liabilities	22.3	32.0
Current portion of long-term non-revolving debt, net	21.8	19.0
Dividends payable	2.9	2.9
Income taxes payable	5.1	3.6
Total current liabilities	136.3	152.3
Revolving lines of credit	217.9	261.3
Long-term non-revolving debt, net	304.2	164.2
Deferred income taxes	57.2	61.0
Other noncurrent liabilities	33.0	30.0
Total liabilities	748.6	668.8
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, par value \$0.001, 2.0 shares authorized, no shares issued or outstanding	—	—
Common stock, par value \$0.001, 100.0 shares authorized, 33.0 and 32.6 shares issued and outstanding	—	—
Capital in excess of par value	431.6	404.3
Retained earnings	475.3	450.0
Accumulated other comprehensive loss	(64.9)	(59.4)
Total shareholders' equity	842.0	794.9
Total liabilities and shareholders' equity	\$ 1,590.6	\$ 1,463.7

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Operations (unaudited)
(in millions, except per share data)

	Three Months Ended	
	September 30, 2023	October 1, 2022
Net sales	\$ 201.4	\$ 207.2
Cost of sales	141.7	137.9
Gross profit	59.7	69.3
Selling, engineering and administrative expenses	37.7	31.7
Amortization of intangible assets	8.2	6.8
Operating income	13.8	30.7
Interest expense, net	8.7	4.1
Foreign currency transaction loss (gain), net	0.1	(0.2)
Other non-operating expense, net	—	0.2
Income before income taxes	5.0	26.7
Income tax provision	1.5	6.3
Net income	\$ 3.5	\$ 20.4
Net income per share:		
Basic	\$ 0.11	\$ 0.63
Diluted	\$ 0.11	\$ 0.63
Weighted average shares outstanding:		
Basic	33.0	32.5
Diluted	33.1	32.6
Dividends declared per share	\$ 0.09	\$ 0.09

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Operations (unaudited)
(in millions, except per share data)

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Net sales	\$ 642.2	\$ 689.4
Cost of sales	435.7	454.2
Gross profit	206.5	235.2
Selling, engineering and administrative expenses	113.8	98.1
Amortization of intangible assets	24.7	20.6
Operating income	68.0	116.6
Interest expense, net	22.6	11.7
Foreign currency transaction loss (gain), net	0.6	(1.3)
Other non-operating expense, net	—	1.5
Income before income taxes	44.8	104.7
Income tax provision	10.7	23.8
Net income	\$ 34.1	\$ 80.9
Net income per share:		
Basic	\$ 1.04	\$ 2.49
Diluted	\$ 1.04	\$ 2.48
Weighted average shares outstanding:		
Basic	32.8	32.5
Diluted	33.0	32.6
Dividends declared per share	\$ 0.27	\$ 0.27

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Comprehensive (Loss) Income (unaudited)
(in millions)

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net income	\$ 3.5	\$ 20.4	\$ 34.1	\$ 80.9
Other comprehensive loss				
Foreign currency translation adjustments, net of tax	(10.2)	(20.2)	(6.5)	(47.1)
Unrealized gain on interest rate swaps, net of tax	0.9	3.2	1.0	10.5
Total other comprehensive loss	(9.3)	(16.9)	(5.5)	(36.5)
Comprehensive (loss) income	\$ (5.8)	\$ 3.4	\$ 28.6	\$ 44.3

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Shareholders' Equity (unaudited)
Three Months Ended
(in millions)

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensiv e loss	Total
Balance at July 1, 2023	—	\$ —	33.0	\$ —	\$ 428.4	\$ 474.7	\$ (55.6)	\$ 847.5
Shares issued, ESPP					0.6			0.6
Stock-based compensation					2.7			2.7
Cancellation of shares for payment of employee tax withholding					(0.1)			(0.1)
Dividends declared						(2.9)		(2.9)
Net income						3.5		3.5
Other comprehensive loss							(9.3)	(9.3)
Balance at September 30, 2023	<u>—</u>	<u>\$ —</u>	<u>33.0</u>	<u>\$ —</u>	<u>\$ 431.6</u>	<u>\$ 475.3</u>	<u>\$ (64.9)</u>	<u>\$ 842.0</u>
Balance at July 2, 2022	—	\$ —	32.5	\$ —	\$ 397.6	\$ 417.9	\$ (68.6)	\$ 747.0
Shares issued, ESPP					0.5			0.5
Shares issued, acquisition					1.6			1.6
Stock-based compensation					1.8			1.8
Dividends declared						(2.9)		(2.9)
Net income						20.4		20.4
Other comprehensive loss							(16.9)	(16.9)
Balance at October 1, 2022	<u>—</u>	<u>\$ —</u>	<u>32.5</u>	<u>\$ —</u>	<u>\$ 401.5</u>	<u>\$ 435.4</u>	<u>\$ (85.5)</u>	<u>\$ 751.4</u>

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Shareholders' Equity (unaudited)
Nine Months Ended
(in millions)

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensiv e loss	Total
Balance at December 31, 2022	—	\$ —	32.6	\$ —	\$ 404.3	\$ 450.0	\$ (59.4)	\$ 794.9
Shares issued, ESPP					1.6			1.6
Shares issued, acquisition			0.4		18.7			18.7
Stock-based compensation					9.2			9.2
Cancellation of shares for payment of employee tax withholding					(2.2)			(2.2)
Dividends declared						(8.8)		(8.8)
Net income						34.1		34.1
Other comprehensive loss							(5.5)	(5.5)
Balance at September 30, 2023	<u>—</u>	<u>\$ —</u>	<u>33.0</u>	<u>\$ —</u>	<u>\$ 431.6</u>	<u>\$ 475.3</u>	<u>\$ (64.9)</u>	<u>\$ 842.0</u>
Balance at January 1, 2022	—	\$ —	32.4	\$ —	\$ 394.6	\$ 363.3	\$ (49.0)	\$ 709.0
Shares issued, restricted stock			0.1		0.1			0.1
Shares issued, ESPP					1.6			1.6
Shares issued, acquisition					1.6			1.6
Stock-based compensation					6.2			6.2
Cancellation of shares for payment of employee tax withholding					(2.6)			(2.6)
Dividends declared						(8.8)		(8.8)
Net income						80.9		80.9
Other comprehensive loss							(36.5)	(36.5)
Balance at October 1, 2022	<u>—</u>	<u>\$ —</u>	<u>32.5</u>	<u>\$ —</u>	<u>\$ 401.5</u>	<u>\$ 435.4</u>	<u>\$ (85.5)</u>	<u>\$ 751.4</u>

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Helios Technologies, Inc.
Consolidated Statements of Cash Flows (unaudited)
Nine Months Ended
(in millions)

	September 30, 2023	October 1, 2022
Cash flows from operating activities:		
Net income	\$ 34.1	\$ 80.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47.7	37.4
Stock-based compensation expense	9.2	6.2
Amortization of debt issuance costs	0.5	0.4
Benefit for deferred income taxes	(3.1)	(2.1)
Forward contract losses (gains), net	0.1	(6.4)
Other, net	0.5	1.0
(Increase) decrease in, net of acquisitions:		
Accounts receivable	(1.5)	(2.9)
Inventories	(14.4)	(19.7)
Income taxes receivable	0.3	(1.8)
Other current assets	(7.5)	0.6
Other assets	5.8	6.2
Increase (decrease) in, net of acquisitions:		
Accounts payable	(9.1)	(17.2)
Accrued expenses and other liabilities	(6.9)	(5.7)
Income taxes payable	1.8	2.5
Other noncurrent liabilities	(4.6)	(5.4)
Contingent consideration payments in excess of acquisition date fair value	(2.7)	—
Net cash provided by operating activities	50.2	74.2
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(114.8)	(67.3)
Capital expenditures	(25.5)	(21.9)
Proceeds from dispositions of property, plant and equipment	0.3	1.9
Cash settlement of forward contracts	0.6	4.4
Software development costs	(5.1)	(2.3)
Net cash used in investing activities	(144.5)	(85.2)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	175.7	112.7
Repayment of borrowings on revolving credit facilities	(219.0)	(72.2)
Borrowings on long-term non-revolving debt	160.0	—
Repayment of borrowings on long-term non-revolving debt	(16.3)	(12.6)
Proceeds from stock issued	1.6	1.7
Dividends to shareholders	(8.8)	(8.8)
Payment of employee tax withholding on equity award vestings	(2.2)	(2.6)
Payment of contingent consideration liability	(3.4)	(1.1)
Other financing activities	(1.9)	(1.6)
Net cash provided by financing activities	85.7	15.5
Effect of exchange rate changes on cash and cash equivalents	0.1	3.7
Net (decrease) increase in cash and cash equivalents	(8.5)	8.3
Cash and cash equivalents, beginning of period	43.7	28.6
Cash and cash equivalents, end of period	\$ 35.2	\$ 36.8

The accompanying Condensed Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

HELIOS TECHNOLOGIES, INC.
CONDENSED NOTES TO THE CONSOLIDATED, UNAUDITED FINANCIAL STATEMENTS
(Currencies in millions, except per share data)

1. COMPANY BACKGROUND

Helios Technologies, Inc. (“Helios,” or the “Company”) together with its wholly owned subsidiaries, is a global leader in highly engineered motion control and electronic controls technology for diverse end markets, including construction, material handling, agriculture, energy, recreational vehicles, marine and health and wellness. Helios sells its products to customers in over 90 countries around the world. The Company’s strategy for growth is to be the leading provider in niche markets, with premier products and solutions through innovative product development and acquisitions.

The Company operates in two business segments: Hydraulics and Electronics. There are three key technologies within the Hydraulics segment: cartridge valve technology (“CVT”), quick-release hydraulic coupling solutions (“QRC”) and hydraulic system solutions (“Systems”), which often incorporate manifold solutions with CVT and QRC technologies. CVT products provide functions important to a hydraulic system: to control rates and direction of fluid flow and to regulate and control pressures. QRC products allow users to connect and disconnect quickly from any hydraulic circuit without leakage and ensure high-performance under high temperature and pressure using one or multiple couplers. Systems provide engineered solutions for machine users, manufacturers or designers to fulfill complete system design requirements including electro-hydraulic, remote control, electronic control and programmable logic controller systems, as well as automation of existing equipment. The Electronics segment provides complete, fully-tailored display and control solutions for engines, engine-driven equipment, specialty vehicles, therapy baths and traditional and swim spas. This broad range of products is complemented by extensive application expertise and unparalleled depth of software, embedded programming, hardware and sustaining engineering teams.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (“Form 10-K”), filed by Helios with the Securities and Exchange Commission on February 28, 2023. In management’s opinion, all adjustments necessary for a fair presentation of the Company’s financial statements are reflected in the interim periods presented. Operating results for the nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the fiscal year ended December 30, 2023.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capitalized Software Development Costs

The Company sells certain products that contain embedded software that is integral to the functionality of the products. Internal and external costs incurred for developing this software are charged to expense until technological feasibility has been established, at which point the development costs are capitalized. Capitalized software development costs primarily include payroll, benefits and other headcount related expenses. Once the products are available for general release to customers, no additional costs are capitalized. Capitalized software development costs, net of accumulated amortization, were \$8.2 and \$5.6 at September 30, 2023, and December 31, 2022, respectively, and are included in Other assets in the Consolidated Balance Sheets.

Earnings Per Share

The following table presents the computation of basic and diluted earnings per common share (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net income	\$ 3.5	\$ 20.4	\$ 34.1	\$ 80.9
Weighted average shares outstanding - Basic	33.0	32.5	32.8	32.5
Net effect of dilutive securities - Stock based compensation	0.1	—	0.2	0.1
Weighted average shares outstanding - Diluted	33.1	32.6	33.0	32.6
Net income per share:				
Basic	\$ 0.11	\$ 0.63	\$ 1.04	\$ 2.49
Diluted	\$ 0.11	\$ 0.63	\$ 1.04	\$ 2.48

Recently Adopted Accounting Standard

In March 2020, and clarified through December 2022, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance was effective immediately upon issuance in March 2020 and cannot be applied subsequent to December 31, 2024, except for certain optional expedients. The Company adopted the standard for the fiscal year beginning January 1, 2023. In March 2023, the Company executed an amendment to the term loan and revolving credit facility to modify and replace reference to the London Interbank Offered Rate ("LIBOR"). Additionally in March 2023, the company executed an amendment to the interest rate swap agreements to modify and replace reference to LIBOR. The company applied the accounting relief in accordance with ASC 848 as the relevant contract and hedge accounting relationship modifications were executed. The adoption of this standard did not have a material impact on our accounting policies or consolidated financial statements.

3. BUSINESS ACQUISITIONS

On January 27, 2023, the Company completed the acquisition of Schultes Precision Manufacturing, Inc. ("Schultes"), an Illinois corporation. Schultes is a highly trusted specialist in manufacturing precision machined components and assemblies for customers requiring very tight tolerances, superior quality and exceptional value-added manufacturing processes. Currently serving the hydraulic, aerospace, communication, food services, medical device and dental industries, Schultes brings the manufacturing quality, reliability and responsiveness critical to its customers' success. The results of Schultes' operations are reported in the Company's Hydraulics segment and have been included in the Consolidated, Unaudited Financial Statements since the date of acquisition.

Initial cash consideration paid at closing for Schultes, net of cash acquired, totaled \$84.7. Total consideration for the acquisition is subject to a post-closing adjustment in accordance with the terms of the purchase agreement. Cash consideration paid at closing was funded with additional borrowings on the Company's credit facility.

On May 26, 2023, the Company completed the acquisition of i3 Product Development, Inc. ("i3"), a Wisconsin corporation. i3 is a custom engineering services firm, with over 55 engineers with expertise in electronics, mechanical, industrial, embedded and software engineering. i3's solutions are used across many sectors, including medical, off-highway, recreational and commercial marine, power sports, health and wellness, agriculture, consumer goods, industrial, sports and fitness. We anticipate that i3 will equip Helios with significant value-added professional services capabilities to provide customization to Helios platforms and to develop greenfield solutions. The results of i3's operations are reported in the Company's Electronics segment and have been included in the Consolidated, Unaudited Financial Statements since the date of acquisition.

Initial consideration paid at closing for i3, net of cash acquired, totaled \$44.0, consisting of 370,276 shares of the Company's common stock, issued in a private placement to the previous owners of i3, and cash of \$25.9. Total consideration for the acquisition is subject to a post-closing adjustment in accordance with the terms of the purchase agreement. The cash consideration paid at closing was funded with additional borrowings on the Company's credit facility.

In connection with these acquisitions, the Company recorded \$37.7 of goodwill, \$48.0 of other identifiable intangible assets, \$34.2 of property, plant and equipment and \$9.4 of other net assets. The intangible assets include customer relationships of \$36.4 (15.5 year weighted average useful life), trade names and brands of \$7.6 (14.0 year weighted average useful life), technology of \$3.3 (5.0 year weighted average useful life) and sales order backlog of \$0.7 (less than one year weighted average useful life).

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The fair value of identified intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisitions. As additional information becomes available, management will finalize its analysis of the estimated fair value. The purchase price allocations are preliminary, pending post-closing adjustments, final intangibles valuation and tax-related adjustments, and may be revised during the remainder of the measurement period (which will not exceed 12 months from the acquisition dates). Any such revisions or changes to the fair values of the tangible and intangible assets acquired and liabilities assumed could be material.

Pro forma results of operations and the revenue and net income subsequent to the acquisition dates for the acquisitions completed during fiscal 2023 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's financial results.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information regarding the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2023, and December 31, 2022.

	Total	September 30, 2023		
		Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate swap contracts	\$ 12.4	\$ —	\$ 12.4	\$ —
Forward foreign exchange contracts	0.1	—	0.1	—
Total	<u>\$ 12.5</u>	<u>\$ —</u>	<u>\$ 12.5</u>	<u>\$ —</u>
Liabilities				
Forward foreign exchange contracts	\$ 0.1	\$ —	\$ 0.1	\$ —
Contingent consideration	1.4	—	—	1.4
Total	<u>\$ 1.5</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 1.4</u>

	Total	December 31, 2022		
		Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate swap contracts	\$ 11.1	\$ —	\$ 11.1	\$ —
Forward foreign exchange contracts	1.0	—	1.0	—
Total	<u>\$ 12.1</u>	<u>\$ —</u>	<u>\$ 12.1</u>	<u>\$ —</u>
Liabilities				
Forward foreign exchange contracts	\$ 0.3	\$ —	\$ 0.3	\$ —
Contingent consideration	6.7	—	—	6.7
Total	<u>\$ 7.0</u>	<u>\$ —</u>	<u>\$ 0.3</u>	<u>\$ 6.7</u>

A summary of changes in the estimated fair value of contingent consideration at September 30, 2023, is as follows:

Balance at December 31, 2022	\$ 6.7
Change in estimated fair value	0.3
Payment on liability	(6.1)
Accretion in value	0.5
Balance at September 30, 2023	<u>\$ 1.4</u>

5. INVENTORIES, NET

At September 30, 2023, and December 31, 2022, inventory consisted of the following:

	September 30, 2023	December 31, 2022
Raw materials	\$ 117.7	\$ 119.2
Work in process	56.8	41.6
Finished goods	44.3	40.8
Provision for obsolete and slow-moving inventory	(10.1)	(10.0)
Total	<u>\$ 208.7</u>	<u>\$ 191.6</u>

6. OPERATING LEASES

The Company leases machinery, equipment, vehicles, buildings and office space, throughout its locations, which are classified as operating leases. Remaining terms on these leases range from less than one year to eight years. For the nine months ended September 30, 2023, and October 1, 2022, operating lease costs totaled \$5.0 and \$5.1, respectively.

Supplemental balance sheet information related to operating leases is as follows:

	September 30, 2023	December 31, 2022
Right-of-use assets	\$ 22.3	\$ 19.2
Lease liabilities:		
Current lease liabilities	\$ 4.1	\$ 5.8
Non-current lease liabilities	19.3	14.5
Total lease liabilities	<u>\$ 23.4</u>	<u>\$ 20.3</u>
Weighted average remaining lease term (in years):	6.1	
Weighted average discount rate:	5.9 %	

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 5.0	\$ 5.2
Non-cash impact of new leases and lease modifications	\$ 7.6	\$ 1.0

Maturities of lease liabilities are as follows:

2023 Remaining	\$ 1.7
2024	4.9
2025	4.7
2026	4.2
2027	3.2
2028	2.7
Thereafter	7.3
Total lease payments	28.7
Less: Imputed interest	(5.3)
Total lease obligations	23.4
Less: Current lease liabilities	(4.1)
Non-current lease liabilities	\$ 19.3

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

A summary of changes in goodwill by segment for the nine months ended September 30, 2023, is as follows:

	Hydraulics	Electronics	Total
Balance at December 31, 2022	\$ 282.5	\$ 186.0	\$ 468.5
Acquisition of Schultes	11.8	—	11.8
Acquisition of i3	—	25.9	25.9
Currency translation	(3.3)	(0.2)	(3.5)
Balance at September 30, 2023	\$ 291.0	\$ 211.7	\$ 502.7

Acquired Intangible Assets

At September 30, 2023, and December 31, 2022, acquired intangible assets consisted of the following:

	September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangibles:						
Trade names and brands	\$ 94.7	\$ (22.3)	\$ 72.4	\$ 87.5	\$ (18.5)	\$ 69.0
Non-compete agreements	2.0	(1.0)	1.0	2.1	(0.7)	1.4
Technology	53.8	(25.3)	28.5	50.8	(21.3)	29.5
Supply agreement	21.0	(14.4)	6.6	21.0	(12.8)	8.2
Customer relationships	383.1	(68.4)	314.7	349.4	(56.1)	293.3
Sales order backlog	1.4	(1.2)	0.2	0.7	(0.4)	0.3
Workforce	6.1	(3.1)	3.0	6.1	(2.2)	3.9
	\$ 562.1	\$ (135.7)	\$ 426.4	\$ 517.6	\$ (112.0)	\$ 405.6

Amortization expense on acquired intangible assets for the nine months ended September 30, 2023, and October 1, 2022, was \$24.7 and \$20.6, respectively. Future estimated amortization expense is presented below.

Year:		
2023 Remaining		\$ 8.2
2024		31.9
2025		31.7
2026		30.0
2027		26.7
2028		26.2
Thereafter		271.7
Total		<u>\$ 426.4</u>

8. DERIVATIVE INSTRUMENTS & HEDGING ACTIVITIES

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments and hedging activities.

The fair value of the Company's derivative financial instruments included in the Consolidated Balance Sheets is presented as follows:

	Balance Sheet Location	Asset Derivatives Fair Value ⁽¹⁾		Balance Sheet Location	Liability Derivatives Fair Value ⁽¹⁾	
		September 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Derivatives designated as hedging instruments:						
Interest rate swap contracts	Other assets	\$ 12.4	\$ 11.1	Other non-current liabilities	\$ —	\$ —
Derivatives not designated as hedging instruments:						
Forward foreign exchange contracts	Other current assets	0.1	1.0	Other current liabilities	0.1	—
Forward foreign exchange contracts	Other assets	—	—	Other non-current liabilities	—	0.3
Total derivatives		<u>\$ 12.5</u>	<u>\$ 12.1</u>		<u>\$ 0.1</u>	<u>\$ 0.3</u>

⁽¹⁾ See Note 4 for information regarding the inputs used in determining the fair value of derivative assets and liabilities.

The amount of gains and losses related to the Company's derivative financial instruments for the nine months ended September 30, 2023, and October 1, 2022, are presented as follows:

	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	
	September 30, 2023	October 1, 2022		September 30, 2023	October 1, 2022
Derivatives in cash flow hedging relationships:					
Interest rate swap contracts	\$ 1.4	\$ 13.7	Interest expense, net	\$ 5.2	\$ (1.4)

Interest expense presented in the Consolidated Statements of Operations, in which the effects of cash flow hedges are recorded, totaled \$22.6 and \$11.7 for the nine months ended September 30, 2023, and October 1, 2022, respectively.

	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		Location of Gain or (Loss) Recognized in Earnings on Derivatives
	September 30, 2023	October 1, 2022	
Derivatives not designated as hedging instruments:			
Forward foreign exchange contracts	\$ (0.1)	\$ 6.4	Foreign currency transaction gain / loss, net

Interest Rate Swap Contracts

The Company has entered into interest rate swap transactions to hedge the variable interest rate payments on its credit facilities. In connection with the transactions, the Company pays interest based upon a fixed rate as agreed upon with the respective counterparties and receives variable rate interest payments. The interest rate swaps are designated as hedging instruments and are accounted for as cash flow hedges. The aggregate notional amount of the remaining swaps was \$220.0 as of September 30, 2023. The notional amount decreases periodically through the dates of expiration in October 2025 and April 2028. The contracts are settled with the respective counterparties on a net basis at each settlement date.

Forward Foreign Exchange Contracts

The Company has entered into forward contracts to economically hedge translational and transactional exposure associated with various business units whose local currency differs from the Company's reporting currency. The Company's forward contracts are not designated as hedging instruments for accounting purposes.

At September 30, 2023, the Company had two forward foreign exchange contracts with an aggregate notional value of €4.5, maturing at various dates through March 2024.

Net Investment Hedge

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. The Company has designated €90.0 of borrowings on the revolving credit facility as a net investment hedge of a portion of the Company's European operations. The carrying value of the euro denominated debt totaled \$95.2 as of September 30, 2023, and is included in the Revolving lines of credit line item in the Consolidated Balance Sheets. The gain on the net investment hedge recorded in accumulated other comprehensive income as part of the currency translation adjustment was \$0.9, net of tax, for the nine months ended September 30, 2023.

9. CREDIT FACILITIES

Total non-revolving debt consists of the following:

	Maturity Date	September 30, 2023	December 31, 2022
Long-term non-revolving debt:			
Term loans with PNC Bank	Oct 2025	\$ 313.8	\$ 175.0
Term loans with Citibank	Various	12.9	8.6
Total long-term non-revolving debt		326.7	183.6
Less: current portion of long-term non-revolving debt		21.8	19.0
Less: unamortized debt issuance costs		0.7	0.4
Total long-term non-revolving debt, net		\$ 304.2	\$ 164.2

Information on the Company's revolving credit facilities is as follows:

	Maturity Date	Balance		Available Credit	
		September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Revolving line of credit with PNC Bank	Oct 2025	\$ 217.2	\$ 261.3	\$ 180.8	\$ 138.1
Revolving line of credit with Citibank	Jun 2026	1.3	1.6	2.5	0.7

Future maturities of total debt are as follows:

Year:		
2023 Remaining	\$	5.8
2024		23.4
2025		508.5
2026		7.5
Total	\$	<u>545.2</u>

Term Loans and Line of Credit with PNC Bank

The Company has a credit agreement that includes a revolving line of credit and term loan credit facility with PNC Bank, National Association, as administrative agent, and the lenders party thereto.

In May 2023, the Company entered into an Incremental Facility Amendment with PNC Bank, National Association, as administrative agent, and various lenders party thereto that amended the Second Amended and Restated Credit Agreement, dated October 28, 2020 (the "Credit Agreement" and, together with the Incremental Facility Amendment, the "Amended Credit Agreement").

Pursuant to the Incremental Facility Amendment, the Company incurred a new senior secured term loan A-2 (the "Term Loan A-2") in an aggregate principal amount of \$150.0. The issue price of the Term Loan A-2 was equal to 100% of the aggregate principal amount thereof. The Term Loan A-2 bears interest at a rate based on either (i) the secured overnight financing rate ("SOFR") (subject to a 0% floor) for the applicable interest period plus a 0.10% SOFR adjustment plus an applicable margin ranging between 1.50% and 2.75%, depending on the Company's leverage ratio or (ii) a variable rate equal to the highest of (x) the overnight bank funding rate plus 0.50%, (y) the prime rate and (z) daily simple SOFR, plus a 0.10% SOFR adjustment plus 1.00%, plus an applicable margin ranging between 0.50% and 1.75%, depending on the Company's leverage ratio. The Term Loan A-2 is guaranteed by each of the Company's domestic subsidiaries and is secured by substantially all of the assets of the Company and the guarantors, on a pari passu basis with the other facilities under the Amended Credit Agreement. The Term Loan A-2 matures on October 28, 2025, and is not subject to any mandatory repayments prior to such maturity date.

The net proceeds from the Term Loan A-2, together with cash on hand, were used to repay outstanding amounts under the Company's revolving credit facility. Under the Amended Credit Agreement, the Company continues to have access to an accordion feature with the ability to increase the revolver or incur additional term loans under the incremental facility of \$300.0 after giving effect to borrowings under the Term Loan A-2.

The revolving line of credit allows for borrowings up to an aggregate maximum principal amount of \$400.0. To hedge currency exposure in foreign operations, €90.0 of the borrowings on the line of credit are denominated in euros. The borrowings have been designated as a net investment hedge, see additional information in Note 8.

The effective interest rate on the credit agreement at September 30, 2023, was 7.4%. Interest expense recognized on the credit agreement, excluding interest rate swap activity, during the nine months ended September 30, 2023, and October 1, 2022, totaled \$27.5 and \$9.8, respectively. As of September 30, 2023, the Company was in compliance with all debt covenants related to the Amended Credit Agreement.

Term Loans and Line of Credit with Citibank

The Company has an uncommitted fixed asset facility agreement (the "Fixed Asset Facility"), short-term revolving facility agreement (the "Working Capital Facility") and term loan facility agreement (the "Shanghai Branch Term Loan Facility") with Citibank (China) Co., Ltd. Shanghai Branch, as lender.

Under the Fixed Asset Facility, the Company borrowed on a secured basis RMB 2.6. The proceeds of the loan were used for purchases of equipment. Outstanding borrowings under the Fixed Asset Facility accrued interest at a rate equal to the National Interbank Funding Center 1-year loan prime rate plus 1.5%. The loan matured in May 2023, at which time the remaining balance was paid in full.

Under the Working Capital Facility, the Company could borrow amounts on an unsecured revolving facility up to a total of RMB 16.0. Proceeds were used for expenditures related to production at the Company's facility located in Kunshan City, China. Outstanding borrowings under the Working Capital Facility accrued interest at a rate equal to the National Interbank Funding Center 1-year loan prime rate plus 0.5%. The loan matured in May 2023, at which time the remaining balance was paid in full.

Under the Shanghai Branch Term Loan Facility, the Company borrowed on a secured basis RMB 42.7. Outstanding borrowings under the Shanghai Branch Term Loan Facility accrue interest at a rate equal to the National Interbank Funding Center 1-year loan prime rate plus 1.5%, to be repaid on a specified schedule with the final payment due in October 2024.

The Company has a term loan facility agreement (the "Sydney Branch Term Loan Facility") with Citibank, N.A., Sydney Branch, as lender. Under the Sydney Branch Term Loan Facility, the Company borrowed on a secured basis AUD 7.5. Outstanding borrowings under the facility accrued interest at a rate equal to the Australian Bank Bill Swap ("ABBS") reference rate plus 2.0% and was scheduled to be repaid throughout the term of the loan with a final payment due date in December 2024.

In June 2023, the Sydney Branch Term Loan Facility was amended. The Company borrowed on a secured basis AUD 15.0 and used a portion of the proceeds to repay the remaining balance of the original term loan. Outstanding borrowings under the amended Sydney Branch Term Loan Facility accrue interest at a rate equal to the ABBS reference rate plus 2.8%, to be repaid throughout the term of the loan with a final payment due date in June 2026.

Concurrent with the amendment to the Sydney Branch Term Loan Facility, the Company entered into a revolving line of credit agreement with Citibank, N.A., Sydney Branch, as lender (the "Sydney Branch RC Facility"). The Sydney Branch RC Facility allows for borrowings up to an aggregate maximum principal amount of AUD 6.0 and matures in June 2026, with no mandatory repayments prior to such maturity date. The facility accrues interest at a rate equal to the ABBS reference rate plus 2.3%.

As of September 30, 2023, the Company was in compliance with all debt covenants related to the term loans and line of credit with Citibank.

10. INCOME TAXES

The provision for income taxes for the three months ended September 30, 2023, and October 1, 2022, was 30.5% and 23.6% of pretax income, respectively. The provision for income taxes for the nine months ended September 30, 2023 and October 1, 2022, was 23.8% and 22.7% of pretax income, respectively. These effective rates fluctuate relative to the levels of income and different tax rates in effect among the countries in which the Company sells products. The change in the comparable prior year quarter and year-to-date period is primarily due to an overall decrease in discrete tax benefits.

At September 30, 2023, the Company had an unrecognized tax benefit of \$7.7 including accrued interest. If recognized, \$1.8 of unrecognized tax benefit would reduce the effective tax rate in future periods. The Company recognizes interest and penalties related to income tax matters in income tax expense. Interest accrued as of September 30, 2023, is not considered material to the Company's Consolidated, Unaudited Financial Statements.

The Company is currently under state audit and remains subject to income tax examinations in various state and foreign jurisdictions for tax years 2017-2022. The Company believes it has adequately reserved for income taxes that could result from any audit adjustments.

11. STOCK-BASED COMPENSATION

Equity Incentive Plan

The Company's 2023 Equity Incentive Plan ("2023 Plan") provides for the grant of up to an aggregate of 1,000,000 shares of restricted stock, restricted share units, stock options, stock appreciation rights, dividend or dividend equivalent rights, stock awards and other awards valued in whole or in part by reference to or otherwise based on the Company's common stock, to officers, employees and directors of the Company. The 2023 Plan replaced the prior 2019 Equity Incentive Plan and was approved by the Company's shareholders at the 2023 Annual Meeting.

Restricted Stock Units

The Company grants restricted stock units ("RSUs") to employees in connection with a long-term incentive plan. Awards with time-based vesting requirements primarily vest ratably over a three-year period. Awards with performance-based vesting requirements cliff vest after a three-year performance cycle and only after the achievement of certain performance criteria over that cycle. The number of shares ultimately issued for the performance-based units may vary from 0% to 200% of their target amount based on the achievement of defined performance targets. Compensation expense recognized for RSUs granted to employees totaled \$6.5 and \$5.6, respectively, for the nine months ended September 30, 2023, and October 1, 2022.

The Helios Technologies, Inc. Non-Employee Director Compensation Policy compensates Non-Employee Directors for their board service with cash awards and equity-based compensation through grants of RSUs, issued pursuant to the 2019 Plan or 2023 Plan, which vest over a one-year period. Directors were granted 13,809 and 13,137 RSUs during the nine months ended September 30, 2023, and October 1, 2022, respectively. The Company recognized director stock compensation expense on the RSUs of \$1.0 and \$0.3 for the nine months ended September 30, 2023, and October 1, 2022, respectively.

The following table summarizes RSU activity for the nine months ended September 30, 2023:

	Number of Units (in thousands)		Weighted Average Grant-Date Fair Value per Share
Nonvested balance at December 31, 2022	217	\$	66.98
Granted	225		56.75
Vested	(94)		53.51
Forfeited	(44)		65.35
Nonvested balance at September 30, 2023	<u>304</u>	\$	63.78

Included in the nonvested balance at September 30, 2023, is 129,962 nonvested performance-based RSUs.

The Company had \$10.8 of total unrecognized compensation cost related to the RSU awards as of September 30, 2023. That cost is expected to be recognized over a weighted average period of 1.8 years.

Stock Options

The Company has granted stock options with market-based exercise conditions to its officers. As of September 30, 2023, there were 68,000 unvested options and no vested unexercised options. The exercise price per share is \$50.60, which is equal to the market price of Helios stock on the grant date. The options vest after achievement of defined stock prices and after the required service periods, which range from one to two years. These options have a 10-year expiration. The grant date fair value of the options was estimated using a Monte Carlo simulation.

The Company has also granted stock options with only time-based vesting conditions to its officers. As of September 30, 2023, there were 4,999 unvested options and 19,234 vested unexercised options. The exercise prices per share, which range from \$35.04 to \$55.03, are equal to the market price of Helios stock on the respective grant dates. The options vest ratably over a three-year period and have a 10-year expiration. The grant date fair value of the options was estimated using a Black Scholes valuation model.

At September 30, 2023, the Company had \$0.1 of unrecognized compensation cost related to the options, which is expected to be recognized over a weighted average period of 0.8 years. The Company recognized expense on the stock options of \$1.3 and \$0.1 for the nine months ended September 30, 2023, and October 1, 2022, respectively.

Employee Stock Purchase Plans

The Company maintains an Employee Stock Purchase Plan (“ESPP”) in which U.S. employees are eligible to participate. Employees who choose to participate are granted an opportunity to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. Employees in the United Kingdom (“UK”), under a separate plan, are granted an opportunity to purchase the Company’s common stock at market value, on the first or last day of the quarterly purchase period, whichever is lower, with the Company issuing one additional free share of common stock for each six shares purchased by the employee under the plan. Employees purchased 32,004 shares at a weighted average price of \$49.35, and 28,960 shares at a weighted average price of \$54.29, under the ESPP and UK plans during the nine months ended September 30, 2023, and October 1, 2022, respectively. The Company recognized \$0.4 and \$0.3 of compensation expense during the nine months ended September 30, 2023, and October 1, 2022, respectively.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables present changes in accumulated other comprehensive loss by component:

	Unrealized Gains and (Losses) on Derivative Instruments	Foreign Currency Items	Total
Balance at December 31, 2022	\$ 8.5	\$ (67.9)	\$ (59.4)
Other comprehensive loss before reclassifications	(2.6)	(7.6)	(10.2)
Amounts reclassified from accumulated other comprehensive loss, net of tax	4.0	—	4.0
Tax effect	(0.4)	1.1	0.7
Net current period other comprehensive income (loss)	1.0	(6.5)	(5.5)
Balance at September 30, 2023	<u>\$ 9.5</u>	<u>\$ (74.4)</u>	<u>\$ (64.9)</u>

	Unrealized Gains and (Losses) on Derivative Instruments	Foreign Currency Items	Total
Balance at January 1, 2022	\$ (1.4)	\$ (47.6)	\$ (49.0)
Other comprehensive income (loss) before reclassifications	14.8	(59.7)	(44.9)
Amounts reclassified from accumulated other comprehensive loss, net of tax	(1.1)	—	(1.1)
Tax effect	(3.2)	12.6	9.4
Net current period other comprehensive income (loss)	10.5	(47.1)	(36.5)
Balance at October 1, 2022	<u>\$ 9.2</u>	<u>\$ (94.7)</u>	<u>\$ (85.5)</u>

13. SEGMENT REPORTING

The Company has two reportable segments: Hydraulics and Electronics. These segments are organized primarily based on the similar nature of products offered for sale, the types of customers served and the methods of distribution and are consistent with how the segments are managed, how resources are allocated and how information is used by the chief operating decision maker.

The Company evaluates performance and allocates resources based primarily on segment operating income. Certain costs were not allocated to the business segments as they are not used in evaluating the results of, or in allocating resources to the Company's segments. These costs are presented in the Corporate and other line item. For the nine months ended September 30, 2023, the unallocated costs totaled \$29.1 and included certain corporate costs not deemed to be allocable to either business segment of \$1.0, amortization of acquisition-related intangible assets of \$24.7 and other acquisition and integration-related costs of \$3.4. The accounting policies of the Company's operating segments are the same as those used to prepare the accompanying Consolidated, Unaudited Financial Statements.

The following table presents financial information by reportable segment:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net sales				
Hydraulics	\$ 132.0	\$ 131.2	\$ 432.1	\$ 411.1
Electronics	69.4	76.0	210.1	278.3
Total	<u>\$ 201.4</u>	<u>\$ 207.2</u>	<u>\$ 642.2</u>	<u>\$ 689.4</u>
Operating income				
Hydraulics	\$ 18.4	\$ 29.4	\$ 73.3	\$ 92.1
Electronics	4.2	11.0	23.8	51.8
Corporate and other	(8.8)	(9.6)	(29.1)	(27.3)
Total	<u>\$ 13.8</u>	<u>\$ 30.7</u>	<u>\$ 68.0</u>	<u>\$ 116.6</u>
Capital expenditures				
Hydraulics	\$ 4.5	\$ 5.6	\$ 19.5	\$ 13.9
Electronics	1.3	2.9	6.0	8.0
Total	<u>\$ 5.8</u>	<u>\$ 8.4</u>	<u>\$ 25.5</u>	<u>\$ 21.9</u>

	September 30, 2023	December 31, 2022
Total assets		
Hydraulics	\$ 962.6	\$ 874.8
Electronics	605.1	567.1
Corporate	22.9	21.8
Total	<u>\$ 1,590.6</u>	<u>\$ 1,463.7</u>

Geographic Region Information

Net sales are measured based on the geographic destination of sales to the Americas, Europe, the Middle East and Africa ("EMEA") and Asia Pacific ("APAC"). Tangible long-lived assets are shown based on the physical location of the assets and primarily include net property, plant and equipment and exclude right-of-use assets. The following table presents financial information by region:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net sales				
Americas	\$ 115.1	\$ 114.7	\$ 351.9	\$ 365.6
EMEA	44.5	49.0	158.9	175.0
APAC	41.8	43.5	131.4	148.8
Total	<u>\$ 201.4</u>	<u>\$ 207.2</u>	<u>\$ 642.2</u>	<u>\$ 689.4</u>

	September 30, 2023	December 31, 2022
Tangible long-lived assets		
Americas	\$ 145.8	\$ 105.7
EMEA	33.9	33.1
APAC	18.3	17.7
Total	<u>\$ 198.0</u>	<u>\$ 156.5</u>

14. RELATED PARTY TRANSACTIONS

The Company sells inventory to an entity managed by a director of Helios. For the nine months ended September 30, 2023, and October 1, 2022, sales to the entity totaled \$2.8 and \$2.1, respectively. At September 30, 2023, and December 31, 2022, amounts due from the entity totaled \$0.3 and \$0.4, respectively.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is not a party to any legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the results of operations, financial position or cash flows of the Company.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "expects," "anticipates," "believes," "intends," "plans," "will" and similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this Form 10-Q with the Securities and Exchange Commission. These forward-looking statements are subject to risks and uncertainties, including, without limitation, those discussed in this report and those identified in Part I, Item 1A, "Risk Factors" included in our Form 10-K. In addition, new risks emerge from time to time, and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Accordingly, our future results may differ materially from historical results or from those discussed or implied by these forward-looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.

OVERVIEW

We are a global leader in highly engineered motion control and electronic controls technology for diverse end markets, including construction, material handling, agriculture, energy, recreational vehicles, marine and health and wellness.

We operate under two business segments: Hydraulics and Electronics. The Hydraulics segment designs and manufactures hydraulic cartridge valves, manifolds, hydraulic quick release couplings, machined components and assemblies as well as engineers hydraulic solutions and in some cases complete systems. Our Hydraulics segment includes products sold under the Sun Hydraulics, Faster, Custom Fluidpower, Seungwon, NEM, Taimi, Daman and Schultes brands. The Electronics segment designs and manufactures customized electronic controls systems and displays for a variety of end markets including industrial and mobile, recreational and health and wellness. The Electronics segment includes products sold under the Enovation Controls, Murphy, Zero Off, HCT, Balboa Water Group and Joyonway brands.

Recent Acquisitions

In January 2023, we completed the acquisition of Schultes Precision Manufacturing, Inc. Schultes is a highly trusted specialist in manufacturing precision machined components and assemblies for customers requiring very tight tolerances, superior quality and exceptional value-added manufacturing processes. Currently serving the hydraulic, aerospace, communication, food services, medical device and dental industries, Schultes brings the manufacturing quality, reliability and responsiveness critical to its customers' success. Schultes provides additional manufacturing know-how and expands our business into new end markets with attractive secular tailwinds.

In May 2023, we acquired i3 Product Development, a custom design and engineering services firm, with over 55 engineers with expertise in electronics, mechanical, industrial, embedded and software engineering. We anticipate that i3 will equip Helios with significant value-added professional services capabilities to provide customization to Helios platforms and to develop greenfield solutions. i3 specializes in working to transform customers' ideas into industrial design solutions through rapid prototyping and creating 3D models in house. They have also built and patented a remote support platform that provides customers in the field support for their internet of things devices.

Restructuring Activities

We continued our restructuring activities within our Hydraulics segment related to the creation of our two new Regional Operational Centers of Excellence ("CoE"). Facility expansion was completed in Mishawaka, Indiana, the Hydraulic Manifold Solutions CoE, which now includes the manifold machining and integrated package assembly operations from Sun Hydraulics, the integrated package business from Faster Inc., and incremental capacity to allow for Daman's core organic growth. The quick release coupling (QRC) manufacturing transferred from Maumee, Ohio, to the cartridge valve technology location in Sarasota, Florida, which completes the Hydraulic Valve and Coupling Solutions CoE. While the majority of relocation efforts have been accomplished, there still remain additional transfers and integration and efficiency efforts underway in the fourth quarter of 2023.

Manufacturing and Operating Strategy Activities

Over the last couple years, we have presented the major areas for integration as we transform from being a holding company into an integrated operating company. We have developed the strategies and tactics and have several projects in various phases from ideation to execution. We started with the Electronics segment and then moved to the Hydraulics segment. We created manufacturing roadmaps with several programs, each of which might stretch over a couple of years, and are comprised of multiple projects that have clear structure and owners. Work is moving forward on multiple programs and projects simultaneously. This is a continuous improvement process that will drive efficiency and improvements across the business, and we are now doing this as an integrated operating company versus at the business unit level. Some of our recent notable activities include: the creation of our new Centers of Excellence, transferring some of the board assembly and wire harness production from our Tulsa location to our facility in Tijuana, adding capacity at our plants in Italy, India, Tijuana and Indiana, and constructing an automated warehouse at our Faster Italy location.

Global Economic Conditions

We continue to navigate through challenges and disruptions created by the Russia-Ukraine war and general macroeconomic conditions that have created economic uncertainty, market disruption, supply constraints and inflation. We have been mitigating some of the inflation effects through pricing efforts and cost savings measures. We continue to face constraints related to sourcing certain electronic and other components. We are mitigating some of the impact with our procurement efforts, production schedule adjustments and product redesigns.

Refer to Item 1A "Risk Factors" of our Form 10-K for additional discussion of risks related to global economic conditions.

Industry Conditions

Market demand for our products is dependent on demand for the industrial goods in which the products are incorporated. The capital goods industries in general, and the Hydraulics and Electronics segments specifically, are subject to economic cycles. We utilize industry trend reports from various sources, as well as feedback from customers and distributors, to evaluate economic trends. We also rely on global government statistics such as Gross Domestic Product and Purchasing Managers Index to understand macroeconomic conditions.

Hydraulics

According to the National Fluid Power Association (the fluid power industry's trade association in the U.S.), the U.S. index of shipments of hydraulic products increased 8% during the first nine months of 2023 while the U.S. index of orders of hydraulic products declined 4% during the same period. In Europe, the CEMA Business Barometer reported in October that the general business climate index for the European agricultural machinery industry remained in negative territory. The CEMA Barometer report added, this confirms that customers of manufacturers, the dealers, are not able to pass on their numerous orders to end customers causing a record high over-supply. The CECE (Committee for European Construction Equipment) recently reported that the business climate index continued its downturn in July and reached the lowest level in more than two and a half years. The CECE reported that the current level of incoming orders is below prior year levels and, specific to the European market, the order intake is decreasing substantially.

Electronics

The Federal Reserve's Industrial Production Index, which measures the real output of all relevant establishments located in the U.S., reports third quarter 2023 sales of semiconductors and other electronics components continued to improve reaching higher levels than seen in recent years. The Institute of Printed Circuits Association ("IPC") reported that total North American printed circuit board ("PCB") shipments were down 15% in September 2023 compared with the same month last year, however, PCB bookings were down 33% in September compared to the same month last year. The IPC also reported that North American electronics manufacturing services ("EMS") shipments and bookings were down 10% and 17%, respectively, in September 2023 compared with the same month last year. EMS shipments and bookings were also down 12% and 14%, respectively, in September 2023 compared with the previous month.

2023 Third Quarter Results and Comparison of the Three and Nine Months Ended September 30, 2023, and October 1, 2022

(In millions, except per share data)

The following is a discussion of our third quarter and first nine months of 2023 results of operations and liquidity and capital resources; comparisons are with the corresponding reporting periods of 2022, unless otherwise noted.

The following table presents our consolidated results of operations:

	Three Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Net sales	\$ 201.4	\$ 207.2	\$ (5.8)	(2.8)%
Gross profit	\$ 59.7	\$ 69.3	\$ (9.6)	(13.9)%
<i>Gross profit %</i>	29.6 %	33.4 %		
Operating income	\$ 13.8	\$ 30.7	\$ (16.9)	(55.0)%
<i>Operating income %</i>	6.9 %	14.8 %		
Net income	\$ 3.5	\$ 20.4	\$ (16.9)	(82.8)%
Diluted net income per share	\$ 0.11	\$ 0.63	\$ (0.52)	(82.5)%

	Nine Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Net sales	\$ 642.2	\$ 689.4	\$ (47.2)	(6.8)%
Gross profit	\$ 206.5	\$ 235.2	\$ (28.7)	(12.2)%
<i>Gross profit %</i>	32.2 %	34.1 %		
Operating income	\$ 68.0	\$ 116.6	\$ (48.6)	(41.7)%
<i>Operating income %</i>	10.6 %	16.9 %		
Net income	\$ 34.1	\$ 80.9	\$ (46.8)	(57.8)%
Diluted net income per share	\$ 1.04	\$ 2.48	\$ (1.44)	(58.1)%

Third quarter consolidated net sales declined \$5.8, 2.8%. We experienced organic net sales decline of \$19.1, 9.2%, which was offset partially by sales from acquisitions totaling \$13.3. Sales were impacted by reduced demand for products in our mobile, marine, industrial and health and wellness end markets, offset partially by an increase to the off-road vehicles end market. Consolidated net sales were slightly up in the Americas region and down in the EMEA and APAC regions during the third quarter. Discrete impacts favorable to our third quarter organic sales included pricing changes of \$3.6, 1.7%, and changes in foreign currency exchange rates of \$2.2, 1.1%.

Constraints related to sourcing certain electronic and other components persisted but eased slightly during the third quarter. As of September 30, 2023, we estimate that approximately \$11.2 of sales were delayed into future quarters due to the supply shortages.

Consolidated net sales for the year-to-date period were lower by \$47.2, 6.8%. Acquisition-related sales for the first three quarters of 2023 totaled \$43.4 and organic sales declined \$90.6, 13.1%. Sales were impacted most by reduced demand for products in our health and wellness end market, which continues to be below the prior year. Sales in this end market were previously strengthened by the pandemic as consumers invested in health and leisure products. Other declines include sales into the industrial, marine and mobile end markets, offset partially by increases in the off-road vehicles and agriculture end markets. Consolidated net sales were down in all regions in the year-to-date period. Discrete impacts to our year-to-date organic sales included pricing changes that were favorable by \$16.2, 2.3%, and changes in foreign currency exchange rates that were unfavorable by \$1.6, 0.2%.

Third quarter gross profit decreased \$9.6, 13.9%, driven by lower volume, the unfavorable margin profile of acquired businesses which generally have higher cost of sales and lower selling, engineering and administrative expenses ("SEA"), higher restructuring costs of \$1.4 and higher wage and benefit costs of \$1.0, partially offset by pricing and favorable foreign currency impacts of \$0.4. Material costs as a percentage of sales, excluding pricing changes and acquisition-related sales, decreased by 140 basis points primarily from segment and product mix. Gross margin declined by 380 basis points, impacted by lower fixed costs leverage on lower volume and cost impacts noted above.

Gross profit for the year-to-date period decreased \$28.7, 12.2%. This was attributable to lower volume, the unfavorable margin profile of acquired businesses, higher restructuring costs of \$3.3, higher wage and benefit costs of \$1.1 and unfavorable foreign currency of \$0.6, partially offset by pricing. Material costs as a percentage of sales, excluding pricing changes and acquisition-related sales, decreased by 20 basis points primarily from segment and product mix. Gross margin declined by 190 basis points, impacted by lower fixed costs leverage on lower volume and cost impacts noted above.

Third quarter operating income as a percentage of sales declined 790 basis points to 6.9%. In addition to the gross margin level changes, amortization expense on acquired intangible assets increased by \$1.4 due to our 2022 and 2023 acquisitions. SEA expenses also increased by \$6.0, mainly from acquisitions, higher restructuring costs of \$1.6, higher wage and benefit costs of \$1.3 and increased research and development (R&D) investment for new product development of \$0.7.

Operating income for the year-to-date period as a percentage of sales decreased 630 basis points to 10.6%. In addition to the gross margin level changes, amortization expense on acquired intangible assets increased by \$4.1 due to our 2022 and 2023 acquisitions. SEA expenses were also up by \$15.7, mainly from acquisitions, higher restructuring of \$2.0, higher wage and benefit costs of \$4.7 and increased R&D for investment related to new product development of \$1.3. Other increases included officer transition costs of \$0.6, professional fees of \$0.5 and board of director fees of \$0.5.

Net interest expense increased by \$4.6 to \$8.7 in the third quarter of 2023. Average net debt increased to \$510.8 during the third quarter of 2023 compared with \$399.2 during the third quarter of 2022. Year-to-date net interest expense totaled \$22.6, an increase of \$10.9. Average net debt for the year-to-date period increased to \$455.9 compared with \$418.6 during the prior year period. In addition to higher interest rates in the current year, average net debt balances increased with the acquisitions of Daman in September 2022, Schultes in January 2023 and i3 in May 2023.

The provision for income taxes for the third quarter of 2023 was 30.5% of pretax income compared to 23.6% for the prior year third quarter. The year-to-date provision was 23.8% and 22.7% of pretax income for 2023 and 2022, respectively. These effective rates fluctuate relative to the levels of income and different tax rates in effect among the countries in which we sell our products. On August 16, 2022, the Inflation Reduction Act was enacted into law, and includes, among other things, a new 15% minimum tax and 1% excise tax on stock repurchases after December 31, 2022. These tax law changes have no immediate material effect and are not expected to have a material impact on our future financial results, we will continue to evaluate its impact as further information becomes available.

SEGMENT RESULTS

Hydraulics

The following table presents the results of operations for the Hydraulics segment:

	Three Months Ended			
	September 30, 2023	October 1, 2022	\$ Change	% Change
Net sales	\$ 132.0	\$ 131.2	\$ 0.8	0.6 %
Gross profit	\$ 41.1	\$ 46.5	\$ (5.4)	(11.6)%
<i>Gross profit %</i>	<i>31.1 %</i>	<i>35.4 %</i>		
Operating income	\$ 18.4	\$ 29.4	\$ (11.0)	(37.4)%
<i>Operating income %</i>	<i>13.9 %</i>	<i>22.4 %</i>		

	Nine Months Ended			
	September 30, 2023	October 1, 2022	\$ Change	% Change
Net sales	\$ 432.1	\$ 411.1	\$ 21.0	5.1 %
Gross profit	\$ 140.7	\$ 146.8	\$ (6.1)	(4.2)%
<i>Gross profit %</i>	<i>32.6 %</i>	<i>35.7 %</i>		
Operating income	\$ 73.3	\$ 92.1	\$ (18.8)	(20.4)%
<i>Operating income %</i>	<i>17.0 %</i>	<i>22.4 %</i>		

Third quarter net sales for the Hydraulics segment increased by \$0.8, 0.6%. We experienced organic net sales decline of \$10.2, 7.8%, which was offset by acquisition sales totaling \$11.0. Sales in the third quarter to the mobile and industrial end markets were down compared to the prior year-period, in addition to a slight decline noted in the agricultural end market. Discrete impacts favorable to our third quarter organic sales included pricing changes of \$2.4, 1.8%, and changes in foreign currency exchange rates of \$2.2, 1.7%.

As of September 30, 2023, we estimate that approximately \$7.8 of Hydraulics segment sales were delayed into future quarters due to supply shortages.

Year-to-date net sales for the Hydraulics segment increased by \$21.0, 5.1%. We experienced organic net sales decline of \$18.9, 4.6%, and acquisition sales totaled \$39.9. Year-to-date sales to the mobile and industrial end markets contracted, while sales to the agricultural markets improved. Discrete impacts to our year-to-date organic sales included pricing changes that were favorable by \$12.4, 3.0% and changes in foreign currency exchange rates that were unfavorable by \$1.3, 0.3%.

The following table presents net sales based on the geographic region of the sale for the Hydraulics segment:

	Three Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Americas	\$ 55.7	\$ 49.7	\$ 6.0	12.1 %
EMEA	38.8	41.3	(2.5)	(6.1)%
APAC	37.5	40.2	(2.7)	(6.7)%
Total	<u>\$ 132.0</u>	<u>\$ 131.2</u>		

	Nine Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Americas	\$ 174.2	\$ 142.7	\$ 31.5	22.1 %
EMEA	139.5	143.2	(3.7)	(2.6)%
APAC	118.4	125.2	(6.8)	(5.4)%
Total	<u>\$ 432.1</u>	<u>\$ 411.1</u>		

Regional sales performance in the third quarter compared to the prior year quarter was driven by:

Americas - pricing and our recent acquisitions contributed to a 12.1% increase

EMEA - excluding favorable changes in foreign currency rates of \$2.8, sales were down \$5.3, 12.8%, primarily from softer demand in the region

APAC - excluding unfavorable changes in foreign currency rates of \$0.6, sales declined \$2.1, 5.2%, from softer demand in the region

Regional sales performance in the year-to-date period compared to the prior year period was driven by:

Americas - pricing and our recent acquisitions contributed to a 22.1% increase

EMEA - excluding favorable changes in foreign currency rates of \$1.6, sales declined \$5.3, 3.7%, from softer demand in the region

APAC - excluding unfavorable changes in foreign currency rates of \$2.9, sales declined \$3.9, 3.1%, from softer demand in the region

Third quarter gross profit declined \$5.4, 11.6%, from volume while gross margin declined by 430 basis points, primarily from unfavorable margin profile of acquired businesses, \$1.7 of increased restructuring costs comprised of labor costs, travel and other expenses associated with the manufacturing relocation, partially offset by pricing noted above and \$0.3 favorable change in foreign currency exchange rates. Material costs as a percentage of sales decreased by 310 basis points, excluding pricing changes and acquisition-related sales.

Year-to-date gross profit declined \$6.1, 4.2%, from volume while gross margin declined by 310 basis points, primarily from the unfavorable margin profile of acquired businesses, \$3.6 of increased restructuring costs comprised of labor costs, travel and other expenses associated with the manufacturing relocation, \$0.7 of unfavorable change in foreign currency exchange rates, partially offset by pricing amounts noted above. Material costs as a percentage of sales increased by 170 basis points, excluding pricing changes and acquisition-related sales.

Operating income as a percentage of sales declined 850 basis points to 13.9% in the third quarter of 2023. SEA expenses went up by \$5.6, mainly due to acquisitions and corporate activities. Other increases were for restructuring activities of \$0.9, higher wage and benefit costs of \$0.2, professional fees of \$0.2 and R&D costs of \$0.4, which were primarily for new product development activities.

Year-to-date operating income as a percentage of sales decreased 540 basis points to 17.0%. SEA expenses went up by \$12.7, mainly due to acquisitions and higher wage and benefit costs of \$1.2 for merit increases, market adjustments and corporate activities. Other increases were for restructuring activities of \$1.3, professional fees of \$0.7 and R&D costs of \$0.8.

In the third quarter of 2023, the Company experienced aggregate losses related to a fire and a weather-related incident at one of its manufacturing locations in Italy resulting in the shut-down of operations for a period of time and disruption in production as recovery efforts ensued. Impacted operations have been restored. There are insurance claims open related to these incidents and the Company is working closely with the insurance carrier to assess the claims and evaluate potential recoveries. Losses from damage to the building, equipment and supplies have been fully offset by probable insurance recoveries, which represents anticipated insurance proceeds not in excess of the associated losses, for which receipt has been deemed probable. Any recoveries in excess of losses incurred will be recognized when all contingencies related to the claim have been resolved.

Electronics

The following table presents the results of operations for the Electronics segment:

	Three Months Ended				\$ Change	% Change
	September 30, 2023	October 1, 2022				
Net sales	\$ 69.4	\$ 76.0	\$	\$ (6.6)	(8.7)%	
Gross profit	\$ 18.6	\$ 22.8	\$	\$ (4.2)	(18.4)%	
<i>Gross profit %</i>	26.8 %	30.0 %				
Operating income	\$ 4.2	\$ 11.0	\$	\$ (6.8)	(61.8)%	
<i>Operating income %</i>	6.1 %	14.5 %				

	Nine Months Ended				\$ Change	% Change
	September 30, 2023	October 1, 2022				
Net sales	\$ 210.1	\$ 278.3	\$	\$ (68.2)	(24.5)%	
Gross profit	\$ 65.8	\$ 88.4	\$	\$ (22.6)	(25.6)%	
<i>Gross profit %</i>	31.3 %	31.8 %				
Operating income	\$ 23.8	\$ 51.8	\$	\$ (28.0)	(54.1)%	
<i>Operating income %</i>	11.3 %	18.6 %				

Third quarter net sales for the Electronics segment declined \$6.6, 8.7%. We experienced organic net sales decline of \$8.9, 11.7%, which was partially offset by acquisition sales of \$2.3. Compared to the prior year period, third quarter sales in the health and wellness, marine and industrial machinery end markets declined, while sales to the off-road vehicles end market increased. Demand in our health and wellness end market continued to decline compared to the prior year, which was strengthened by the pandemic as consumers invested in health and leisure products. Orders for health and wellness are down in the third quarter 2023 compared to the second quarter 2023 but up over the third quarter 2022. Discrete impacts to our third quarter sales included pricing changes that were favorable by \$1.2, 1.6%.

As of September 30, 2023, we estimate that approximately \$3.4 of Electronics segment sales were delayed into future quarters due to supply shortages.

Year-to-date net sales for the Electronics segment declined \$68.2, 24.5%. We experienced organic net sales decline of \$71.7, 25.8%, which was partially offset by acquisition sales of \$3.5. In the year-to-date period, lower demand in the health and wellness end market was the primary driver of the sales decline, while the marine market also experienced a notable decline. This was partially offset by improvement in the mobile and off-road vehicles end markets. Discrete impacts to our year-to-date sales included pricing changes that were favorable by \$3.8, 1.4%, partially offset by unfavorable changes in foreign currency exchange rates of \$0.3.

The following table presents net sales based on the geographic region of the sale for the Electronics segment:

	Three Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Americas	\$ 59.4	\$ 65.0	\$ (5.6)	(8.6)%
EMEA	5.7	7.7	(2.0)	(26.0)%
APAC	4.3	3.3	1.0	30.3%
Total	<u>\$ 69.4</u>	<u>\$ 76.0</u>		

	Nine Months Ended		\$ Change	% Change
	September 30, 2023	October 1, 2022		
Americas	\$ 177.7	\$ 222.9	\$ (45.2)	(20.3)%
EMEA	19.4	31.8	(12.4)	(39.0)%
APAC	13.0	23.6	(10.6)	(44.9)%
Total	<u>\$ 210.1</u>	<u>\$ 278.3</u>		

Lower sales in the industrial and recreation end markets, as well as the reduced demand in the health and wellness end market, contributed to the decline in sales across the Americas and EMEA regions in the third quarter. Lower sales in the industrial end market, as well as the reduced demand in the health and wellness end market, also contributed to the decline in sales across all regions in the year-to-date periods.

Third quarter gross profit decreased \$4.2, 18.4%, due to the lower sales volume. Gross margin declined by 320 basis points to 26.8% as pricing and favorable sales mix were not able to offset higher material costs and reduced leverage of our fixed cost base on the lower sales. Material costs as a percentage of sales, excluding pricing changes and acquisition-related sales, increased in the third quarter by 200 basis points due to higher material inflationary costs, partially offset by a favorable sales mix.

Year-to-date gross profit decreased \$22.6, 25.6%, due to the lower sales volume. Gross margin declined by 50 basis points to 31.3% as a favorable sales mix and pricing were not able to offset the reduced leverage of our fixed cost base on the lower sales. Material costs as a percentage of sales, excluding pricing changes and acquisition-related sales, decreased in the first three quarters of 2023 by 210 basis points primarily due to a favorable sales mix.

SEA expenses increased by \$2.6, 22.0%, in the third quarter of 2023, primarily from acquisitions and wages and benefits of \$1.1 for the rolling impact of previous merit increases, market adjustments and new hires for investments in engineering, sales and corporate activities.

Year-to-date SEA expenses increased by \$5.4, 14.8%, primarily from acquisitions and wages and benefits of \$3.4 for merit increases, market adjustments and new hires for investments in engineering, sales and corporate activities.

Corporate and Other

Certain costs are excluded from business segment results as they are not used in evaluating the results of, or in allocating resources to, our operating segments. For the third quarter of 2023, these costs totaled \$8.8 for: amortization of acquisition-related intangible assets of \$8.2, \$0.5 related to our acquisition and integration activities and \$0.1 for officer transition costs. Compared to the third quarter of 2022, these costs decreased by \$0.8, primarily from the net impact of other acquisition and integration activities and acquisition-related amortization. Year-to-date, corporate and other costs totaled \$29.1 for: amortization of acquisition-related intangible assets of \$24.7, \$3.4 related to our acquisition and integration activities and \$1.0 for officer transition costs. Compared to the 2022 year-to-date period, corporate and other costs increased by \$1.8, primarily from the net impact of other acquisition and integration activities and acquisition-related amortization.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of capital are cash generated from operations and borrowings on our credit facilities to fund acquisitions. During the first nine months of 2023, cash provided by operating activities totaled \$50.2. At the end of the third quarter, we had \$35.2 of available cash and cash equivalents on hand and \$183.3 of available credit on our revolving credit facilities. We also have a \$300.0 accordion feature available on our credit facility, subject to certain pro forma compliance requirements, intended to support potential future acquisitions.

Our principal uses of cash are operating expenses, capital expenditures, servicing debt, acquisition-related payments and dividends to shareholders.

We believe that cash generated from operations and our borrowing availability under our credit facilities will be sufficient to satisfy our operating expenses. In the event that economic conditions were to severely worsen for a protracted period of time, we would have several options available to ensure liquidity in addition to increased borrowings. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations, operating expense reductions could be made, acquisition activity could be delayed and finally, the dividend to shareholders could be reduced or suspended.

Cash Flows

The following table summarizes our cash flows for the periods:

	Nine Months Ended		\$ Change
	September 30, 2023	October 1, 2022	
Net cash provided by operating activities	\$ 50.2	\$ 74.2	\$ (24.0)
Net cash used in investing activities	(144.5)	(85.2)	(59.3)
Net cash provided by financing activities	85.7	15.5	70.2
Effect of exchange rate changes on cash and cash equivalents	0.1	3.7	(3.6)
Net (decrease) increase in cash and cash equivalents	<u>\$ (8.5)</u>	<u>\$ 8.3</u>	<u>\$ (16.8)</u>

Cash on hand decreased \$8.5 in the first three quarters of 2023 to \$35.2 as of September 30, 2023. Changes in exchange rates during the nine months ended September 30, 2023, did not have a significant impact on cash and cash equivalents. Cash balances on hand are a result of our cash management strategy, which focuses on maintaining sufficient cash to fund operations while reinvesting cash in the Company and paying down borrowings on our credit facilities.

Operating activities

Year-to-date cash from operations declined by \$24.0 to \$50.2. Cash earnings (calculated as net income plus adjustments to reconcile net income to net cash provided by operating activities, excluding changes in net operating assets and liabilities) decreased by \$31.1 in the first three quarters of 2023 compared to the same period in 2022. Included in current year cash earnings is \$2.7 related to a payment made on the contingent consideration liability from the NEM acquisition, which was required to be included in operating cash flows for the period as the total payments exceeded the acquisition date fair value of the liability. Changes in net operating assets and liabilities improved cash flow by \$7.3, compared to the prior year period, primarily from favorable cash flows from accounts receivable and inventories. Investments in inventory reduced cash by \$14.4 and \$19.7 in the first three quarters of 2023 and 2022, respectively. Days of inventory on hand increased to 133 days as of September 30, 2023, compared with 118 days as of October 1, 2022. The increase is primarily due to the decline in sales to the health and wellness end market. We have higher inventory than needed for current sales levels to that end market. Changes in accounts receivable reduced cash by \$1.5 and \$2.9 in the first three quarters of 2023 and 2022, respectively. Days sales outstanding increased slightly to 59 days as of September 30, 2023, compared with 58 days as of October 1, 2022, as our collection patterns remain largely consistent with the prior period.

Investing activities

Cash used in investing activities totaled \$144.5 in the first three quarters of 2023, compared to cash used of \$85.2 in the first three quarters of the prior year. Cash paid, net of cash acquired, for our acquisitions in the first three quarters of 2023 totaled \$114.8.

Capital expenditures totaled \$25.5, 4.0% of sales, for the first three quarters of 2023, an increase of \$3.6 over the prior year comparable period. Capital expenditures for 2023 are forecasted to be approximately 4%-5% of sales, for investments in machinery and equipment for capacity expansion projects, improvements to manufacturing technology and maintaining/replacing existing machine capabilities.

Financing activities

Net cash provided by financing activities totaled \$85.7 during the first three quarters of 2023, compared with cash provided of \$15.5 in the prior year period. Cash paid for acquisitions in 2023 was primarily financed with borrowings on our credit facility; borrowings, net of repayments, during 2023 totaled \$100.4. In 2022, borrowings, net of repayments, totaled \$27.9.

In May 2023, we entered into an incremental facility amendment to our credit agreement with PNC Bank, National Association, as administrative agent, and various lenders party thereto. With the amendment we incurred a new term loan with an aggregate principal amount of \$150.0 for which the proceeds were used to repay outstanding balances on our revolving credit facility. The new term loan is payable in full in October 2025 and is not subject to any required repayments prior to that date. As part of the amendment, we continue to have the ability to increase our revolving credit facility or incur a new term loan up to an additional borrowing limit of \$300.0.

During the third quarter of 2023, we declared a quarterly cash dividend of \$0.09 per share payable on October 20, 2023, to shareholders of record as of October 5, 2023. The declaration and payment of future dividends is subject to the sole discretion of the board of directors, and any determination as to the payment of future dividends will depend upon our profitability, financial condition, capital needs, future prospects and other factors deemed pertinent by the board of directors.

Off Balance Sheet Arrangements

We do not engage in any off-balance sheet financing arrangements. In particular, we do not have any material interest in variable interest entities, which include special purpose entities and structured finance entities.

Inflation and Supply Chain

As more fully described in Item 2 above, we are experiencing supply shortages and increasing material costs. Continued increases in the global demand for the materials used in our products could result in significant increases in the costs of the components we purchase, and we may not be able to fully offset such higher costs through price increases. There is no assurance that our business will not be materially affected by inflation in the future.

Critical Accounting Policies and Estimates

We currently apply judgment and estimates that may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses for impairment of long-lived assets, inventory, goodwill, accruals, income taxes and fair value measurements. Our critical accounting policies and estimates are included in our Form 10-K, and any changes made during the first nine months of 2023, are disclosed in Note 2 to the Consolidated, Unaudited Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See “Item 7A – Quantitative and Qualitative Disclosures about Market Risk” in our Form 10-K. There were no material changes during the nine months ended September 30, 2023.

Item 4. CONTROLS AND PROCEDURES.

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company’s “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, have concluded that our disclosure controls and procedures are effective and are designed to ensure that the information we are required to disclose is recorded, processed, summarized and reported within the necessary time periods. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934, as amended, during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None.

Item 1A. RISK FACTORS.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors that affect our business and financial results that are discussed in Part I, Item 1A, "Risk Factors" of our Form 10-K. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. There have been no material changes to such risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2023, none of the Company's directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement.

Item 6. EXHIBITS.

Exhibits:

Exhibit Number	Exhibit Description
10.1	<u>Advisory and Transition Services & Release Agreement between the Company and Tricia Fulton, dated July 17, 2023 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 18, 2023, and incorporated herein by reference).</u>
31.1	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>CEO Certification pursuant to 18 U.S.C. § 1350.</u>
32.2	<u>CFO Certification pursuant to 18 U.S.C. § 1350.</u>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, has been formatted in Inline XBRL.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 7, 2023

HELIOS TECHNOLOGIES, INC.

By: /s/ Sean Bagan
Sean Bagan
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Josef Matosevic, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, of Helios Technologies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Josef Matosevic
Josef Matosevic
President, Chief Executive Officer

CERTIFICATION

I, Sean Bagan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, of Helios Technologies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Sean Bagan
Sean Bagan
Chief Financial Officer
(Principle Financial and Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Josef Matosevic, the Chief Executive Officer of Helios Technologies (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended September 30, 2023 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023

/s/ Josef Matosevic
Josef Matosevic
President, Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Sean Bagan, the Chief Financial Officer of Helios Technologies (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended September 30, 2023 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023

/s/ Sean Bagan
Sean Bagan
Chief Financial Officer
(Principle Financial and Accounting Officer)
