THE BJORKLUND FUND
EQUITY RESEARCH REPORT
Ticker : HLIO
Sector : Control Flow Equipment
Current Price : $45.84 as of 12/12/19

Date 12/13/19
Recommendation : SELL (28.10% downside)
Target Price : $32.96

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Market Snapshot		
Current PE		23.32
EPS	$	1.97
52 week range		30.79-53.60
Dividend Yield		0.79%
Market Cap		1.42b
Beta		1.3
Dividend	$	0.36
Shares O/S		32.01m
Public Float		29.58m
Average Vol.		69.25k

Share Price & Volume (USD)

Helios Technologies : Unrealistic valuation, initiation at SELL

Our valuation indicates a current discount to the company's close slected peers and we believe a majority of our analysis yields the same downside risk. Management's capability to drive higher return on capital employed through their aggressive M&A activity instead on focusing on existing market opportunities in the company's Electronics segment representing a 7.14x bigger market than its Hydraulics segment which contribute to 80% of the company's current revenues shows weakness in the management's choice of growth factors.

While our multiple relative valuation suggests a higher IV/Share, we don't find any strong argument to justify an in-line pricing to the company's peers and even less about a premium valuation. Sell-side consensus implies a current approximate fair pricing of the company's conmon equity but we believe the under-coverage of the company biases the current average target price.

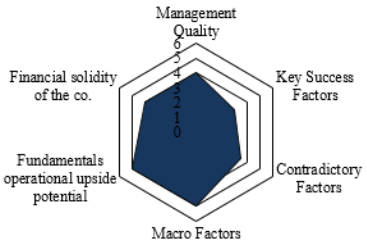
Management overview suggests a weak control of the company's guidance and choice of capital allocation while management's salaries have nearly doubled over the past three years. We don't believe this is justified given the weaker margins and especially the weaker management of operating costs versus a strong stock price return in 2017 and 2018. Stock based compensation are not alarming but base salaries are still increasing although the company's fundamental performance is not positive.

The only upside we observed lied in the company's current lower contributing segment (Electronics with 20% of revenues in 2018) with a TAM of $28.5b versus only $3.5b for its Hydraulics segment. Given that, the company is still pursuing aggressive M&A activities in its Hydraulics segment (+120.20% YoY) while we see a positive upside and reasoning to execute such an aggressive activity towards its lower contributing but more promising Electronics segment.

The company's CCC reveals an above average metric versus its close peers group notably due to its above average account receivable conversion period.

Finally, our DCF valuation implies a target price of $32.6 per share given neutral assumptions. We ran 100k monte carlo simulations on the stock price sensitivity to the company's weighted average cost of capital and terminal growth rate and we concluded that the range of 32-33$ per share is still a reasonable intrinsinc valuation of the company's share price.

DeepSix Analysis



Financials Snapshot	FY 16 A	FY 17A	FY 18A	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E
Revenue (usd mm)	196.93	342.84	508.05	578.32	648.60	718.88	789.16	859.44
EBITDA	48.34	87.84	125.86	124.23	139.78	156.00	172.04	187.36
EBITDA Margin	24.54%	25.62%	24.77%	21.48%	21.55%	21.70%	21.80%	21.80%
EPS	0.93	1.61	1.55	2.34	2.82	3.17	3.61	4.02
EPS Growth		72.27%	-3.82%	51.29%	20.54%	12.47%	13.71%	11.49%
Net Income margin	12.75%	12.68%	9.53%	12.67%	13.61%	13.81%	14.31%	14.65%
ROE	10.62%	15.94%	9.12%					
P/E	45.61x	55.33x	22.28x	19.59x	16.25x	14.45x	12.71x	11.40x
PEG		32.12x	23.17x	12.95x	13.48x	12.85x	11.18x	10.23x

I. Overview of the Company

a. Description

Helios Technologies develops and manufactures solutions for both the hydraulics and electronics markets, therefore they operate mainly in those two business segments. The hydraulics segment of Helios Technologies acts as a leading manufacturer of high-performance screw-in hydraulic cartridge valves, electro-hydraulics, manifolds, and integrated package solutions. There are three main company subsidiaries that operate within the hydraulics segment, under Helios Technologies, the global Sun Hydraulics companies, Faster, and Custom Fluidpower. Both Faster and Custom Fluidpower were acquired in 2018. These companies produce three key technologies including: cartridge valve technology ("CVT"), quick-release hydraulic couplings solutions ("QRC"), and hydraulic system design ("Systems"). The electronics segment of Helios Technologies is a leading producer of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, and stationary and power generation equipment. Enovation Controls, LLC is a subsidiary that makes up the electronics segment of Helios Technologies and has driven the company to be a leading global provider of advanced electronic technologies. Prior to the acquisition of the Enovation Controls in April of 2018, Helios Technologies primarily operated in the hydraulics industry, but Enovation Controls allowed Helios to expand their presence in the electronics industry.

The competitors for Helios Technologies are broken up based on the hydraulics and electronics markets. Within the hydraulics sector, Helios is competing with three different categories of competitors: full-line hydraulics system producers, component only producers of CVT or QRC products, and low-cost producers. Full-line hydraulics system producers are competitors to the hydraulics segment of Helios because they can provide a complete hydraulic system to their customers, which also includes the components that are produced by Helios' hydraulics segment. The hydraulics segment also competes with other companies that produce only the CVT or QRC components of a hydraulics system. Finally, within the hydraulics segment, Helios' subsidiaries must compete with low cost producers who typically work out of Asia and Eastern Europe. Their product ranges are limited and mainly copied from Helios Technologies and its competitors, but are produced at a lower cost. Due to their limited range in products, they aren't strong competitors. Within the electronics segment, Helios Technologies faces a wide array of competitors ranging from large multinational companies that offer a full range of electronic products to small niche companies that focus mainly on one product type. Enovation Controls acts as a niche player and its able to compete successfully by being able to service mid-market niche markets that large competitors are not able to effectively serve. **Information for these two questions was gathered from Helios Technologies' 10-K*

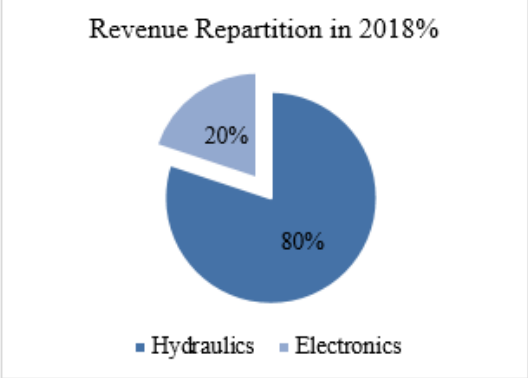
Top Countries	% held
United States	93.35%
Unknown	4.04%
Norway	1.50%
Canada	0.61%
Switzerland	0.27%
United Kingdom	0.17%

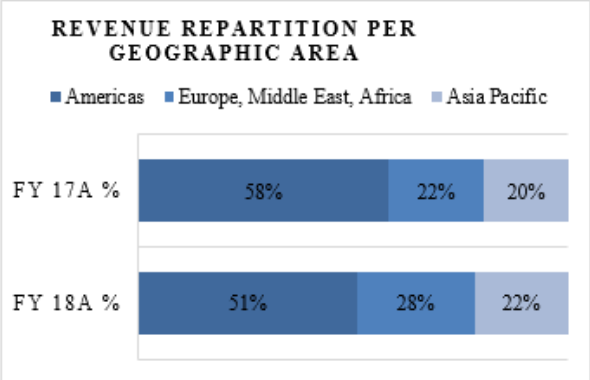
Top Shareholders (as of 3Q18)	Position	% OS
Brown Capital Management, LLC	5,775,282	18.08%
Wasatch Advisors Inc.	3,169,950	9.89%
The Vanguard Group, Inc.	2,658,626	8.30%
T Rowe Price Group, Inc.	2,323,923	7.25%
BlackRock, Inc.	2,016,808	6.29%
Shareholders details (as of 3Q18)	**Insiders**	**Institutional**
% of shares held	0.99%	89.92%
# of institutions/insiders	13	173
# of buyers	0	51
# of sellers	2	53

b. Sales repartition and global market share for selected peers

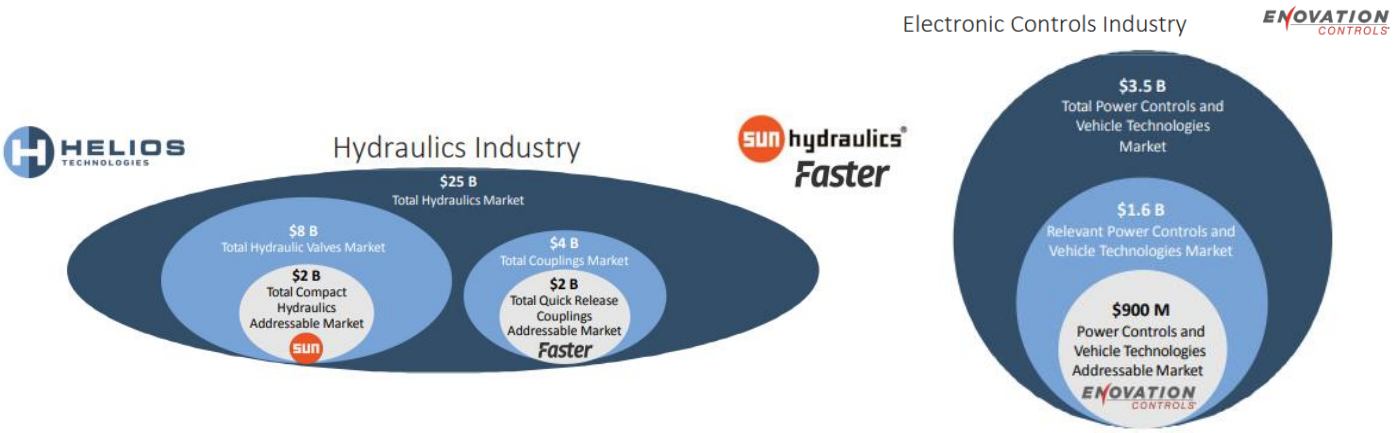
By segment	FY18a	FY17a	YoY growth	% of total sales
Hydraulics	*508*	*231*	120.20%	80.10%
Electronics	126	112	12.48%	19.90%

By geography	FY 18A %	FY 18A $	FY 17A %	FY 17A $
Americas	*51%*	*258*	*58%*	*199*
Europe, Middle East, Africa	*28%*	*140*	*22%*	*77*
Asia Pacific	*22%*	*111*	*20%*	*67*





Helios' revenues rely on two major segments : Hydraulics and Electronics. The Hydraulics segment contributed to 80% of the total sales in 2018 while the Electronics one contributed only 20%. As shown in the previous exhibit, the Hydraulics segment has experienced a significant growth YoY due to the integration of Faster and Custom Fluidpower who contributed to the +120% growth in the Hydraulics segment in 2018. The geographic repartition of the company's sales are situated in majority in the Americas, accounting for 51% of total revenues in 2018. There was a net progression in the geographic repartition for the Europe, Middle East and Africa regions that went from a 22% contribution in FY17 to 28% in FY18.

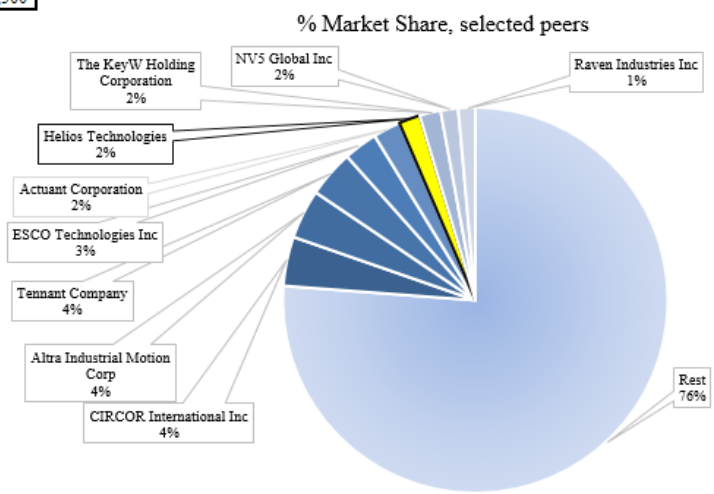


The total addressable market (TAM) highlighted by the company in its September 2018 investor presentations underline a $3.5b TAM in the Hydraulics segment and a $25bbb TAM in the Electronics segment. Having noticed that the net contribution to revenues in 2018 from the Electronics segment was 20%, and as this market is seen by the management as the wider one, i.e 7.14x times the Hydraulics TAM, we can expect Helios Technologies to focus on an expansion in this underlying market going forward.

We broke down the closest peers and attributed a market share in function of the TAM combined for both Hydraulics and Electronics. The TAM represents $28.5b and according to our estimates Helios is positioned as the 4th to last player in its close peer according to its revenues to the TAM volume with a 1.78% market share.

Helios FY18 TAM Hydraulics segment		3,500
Helios FY18 TAM Electronics segment		25,000
TAM combined for company-specifics segment served	$	28,500

Peer Name	Total Revenue FY18	% Market Share
Rest	21714.96	76.19%
CIRCOR International Inc	1175.80	4.13%
Altra Industrial Motion Corp	1175.30	4.12%
Tennant Company	1123.50	3.94%
ESCO Technologies Inc	813.00	2.85%
Actuant Corporation	657.80	2.31%
Helios Technologies	508.05	1.78%
The KeyW Holding Corporation	506.80	1.78%
NV5 Global Inc	418.10	1.47%
Raven Industries Inc	406.70	1.43%
Total	6785.05	23.81%



c. Present Enterprise Value and quick multiple relative valuation

$ in thousands

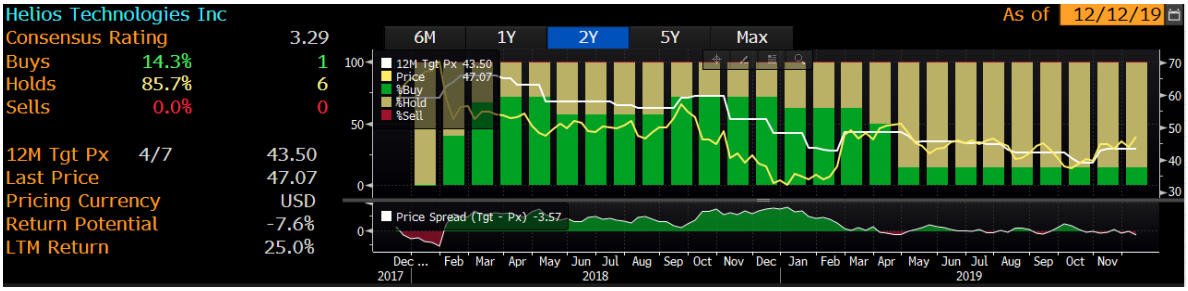
Current Valuation / Base	FY 17A
Share price	*45.84*
Number of shares outstanding	*31,309*
Market capitalization	**1,435,205**
Net debt	73,458
Pension and other postemployment benefits	
Minority interests	-
Preferred equity	-
Other adjustments	
Miscellaneous	
Enterprise Value (EV)	**1,508,663**

We found out that on a pure equity multiple relative approach, Helios yields undervaluation signal for 4 out of 5 mutliple selected for this quick relative valuation. The current EV calculated of $1.5b for a per share price of $45.84 falls short of its relative selected peers average for the EV/EBITDA, EV/EBIT and EV/Revenue multiples. Given our choice to value the company via a DCF approach, we do not believe that Helios deserve a fair relative pricing nor a premium to its close peers, given our extensive analysis of the company's fundamentals in the following parts.

EBITDA	EV/EBITDA
125861	11.98673584

Relative Valuation	Peer Avg	HLIO	Implied relative IV/Share	Upside/Downside
EV/EBITDA	13.30x	11.99x	$ 53.47	16.64%
EV/EBIT	17.50x	17.52x	$ 48.12	4.97%
EV/Revenue	2.90x	2.29x	$ 60.93	32.92%
P/E	21.80x	23.27x	$ 42.95	-6.31%

d. Sellside consensus



Bloomberg consensus estimates underlines an average target price of $43.50 per share, underlining a downside from the current price of $47.07. There is currently only 1 buy signal against 6 holds which is in line with our estimates and we are carrying a SELL signal with a target price of $32.96.

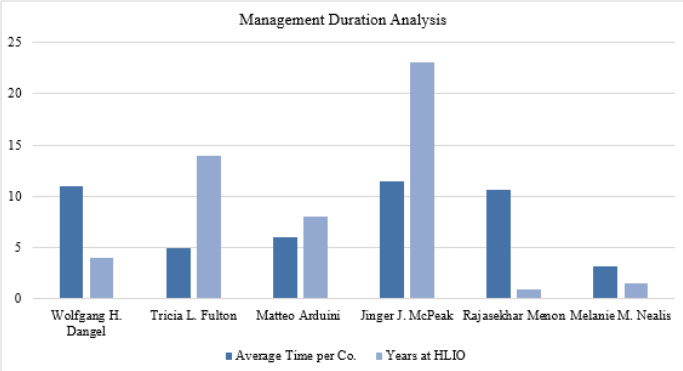
e. Competitive advantage

Helios Technologies has approximately 150 patents and trademarks on their products and services. They do not rely solely on their patents and trademarks to drive their growth and outperform competitors, but they do believe that these protections on their intellectual property are crucial to protect against exploitation from competitors who have exploited their product development that is not legally protected. Helios Technologies needs to utilize patents in order to protect their trade secrets and intellectual property so that the company can continue to increase their sales and profitability. Their main focus for growing their business is to ensure that they are working as hard as possible to maintain a good relationship with the marketplace as well as continuing to improve their quality and functional performance. While it is important for the company to focus on improving the quality of their products, it is necessary for them to utilize patents and trademarks to ensure these improvements are protected.

II. Quality Check

a. Management overview

Name	Position	Years Working	# Companies	Average Time per	Years at HLIO	Education	Previous Companies	Cohesion ?
Wolfgang H. Dangel	CEO and President	33	3	11.0	4	Rosenheim Technical University of Applied Science, Ms in Econ	President/CEO of Sun Hydraulics Corp (current), President at Schaeffler Group, Fag India Ltd	Y
Tricia L. Fulton	CFO	30	6	5.0	14	GMP at HBS, BA Acct at Hillsdale College	National Fluid Power Association, Plymouth Harbor, Loral Data Systems	Y
Matteo Arduini	President of QRC (quick release couplings)	18	3	6.0	8	Bsc Econ from Universita di Parma	Head of Finance at Dana Incorporated, Technogym, Ferrari, Interpump Group	Y
Jinger J. McPeak	President of EC (Enovation Controls)	23	2	11.5	23	MBA and BS in Statistics from Oklahoma State University	Came from Businesst Unit leader at Enovation Controls, Director, VP and GM before President	Y
Rajasekhar Menon	President of CVT (Cartridge valve technology)	32	3	10.7	1	MS Manufacturing Systems Engineering from Purdue U, B Tech from Indian IT	JB Pointdexter, SVP Ops, President Cummins Southern Plains, MD at Cummins,	Y
Melanie M. Nealis	Chief Legal and Compliance Officer	19	6	3.2	1.5	JD Ohio State Univ	Roper Technologies, Nordson Corporation, Frantw Ward LLP	Y
							Cohesion score:	100.00%



We conducted an analysis of the management's background and concluded that the overall leadership team has a cohesive background and shows strong education background. Moreover, the average duration at Helios is 8.58 years which is for 3 out of 5 members of the leadership team above their average time per company in their professionalll background.

Salary. They pay competitive cash salaries, with no guaranteed annual raises. All raises are done on an individual basis, and are tied to individual performance, and the financial performance of the overall company.

Stock-Based Compensation. The company provides partial compensation in the form of company stock. The exact amount varies from year to year, and is split up on an individual basis, based on performance. This is to encourage both short term performance incentives, as well as a long term investment in the company from their high-level management. The CEO makes recommendations on awards for high-ranking members of the company. These recommendations are then reviewed, and either approved or edited by the committee that oversees executive compensation. The CEO does not determine his own equity compensation, this is done by the committee, and is largely based on company performance.

Bonuses. Bonuses are done on a performance basis. They are tied to both individual performance, and the overall financial performance of the company. This is done to drive the financial performance of the company, so they will range based on how the company does overall. *Structure for Pay Increases.* (See below chart)

Short-term incentive (STI)	• Harmonize bonus structure across corporate and subsidiary levels • Enhance pay-for-performance relationship • Increase alignment with communicated financial goals • Improve clarity of plan's objectives for employees and shareholders	• Determine payouts based on an objective formula with threshold, target and maximum performance levels • Establish preset financial measures and targets designed to drive overall company and subsidiary financial results. For Helios corporate employees the metrics are: Helios net sales (20%); adjusted EBITDA (40%); and adjusted free cash flow (40%). For subsidiary executives the metrics are: Helios adjusted EBITDA (25%); subsidiary adjusted EBITDA (25%); subsidiary net sales (25%); and subsidiary adjusted free cash flow (25%). All STI payouts are subject to a circuit breaker threshold of Helios net Income. • Limit discretion to eliminating the financial impact of certain items that do not reflect the underlying operating performance of the business
Long-term incentive (LTI)	• Align LTI with Vision 2025, long-term value creation and market practices • Increase performance-based pay to align management interests with those of shareholders	• Reduce time-vested restricted stock that vests pro rata over three years from 100% to 50% of LTI Plan • Award 50% of LTI Plan in performance-based restricted stock that cliff vests after three years based on meeting Vision 2025 financial performance measures, which for 2019 are: adjusted EBITDA margin (40%), adjusted EPS (40%) and revenue compound annual growth rate (20%) (metrics were assigned based on subsidiary or corporate performance as applicable to the executive)
Pay mix	• Focus on linking pay to performance • Align with market practice	• Rebalance STI Plan and LTI Plan award levels • Harmonize STI Plan and LTI Plan plans for corporate and subsidiary executives
Risk mitigation features	• Mitigate executive compensation plan risk	• Add non-compete / non-solicitation clauses to equity award agreements

Management seems to have specific short and long-term performance metrics they must hit for their SBC to vest. They do not provide specifics on how much SBC we can expect to see into the future. However, if we use the past as our guide, we can see that it should fall somewhere in the $4 to $5 million range. More specific information about their executive compensation (and the huge jumps in executive pay) can be found below.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	All Other Compensation ($) (2)	Total ($)
Wolfgang H. Dangel	2018	529,856	8,425	968,580	32,246	1,539,107
President and	2017	515,000	826	425,400	17,610	958,836
Chief Executive Officer (3)	2016	386,250	—	331,600	15,050	732,900
Tricia L. Fulton	2018	322,817	5,448	710,292	34,301	1,072,858
Chief Financial Officer	2017	262,000	30,826	425,400	20,013	738,239
	2016	250,923	—	—	28,275	279,198
Gary A. Gotting	2018	224,038	4,084	177,573	21,463	427,158
Global Lead, CVT	2017	200,000	6,826	106,350	10,086	323,262
Product Development	2016	180,800	—	—	13,303	194,103
and Marketing						
Jinger McPeak	2018	240,663	93,406	134,525	13,658	482,252
Global Co-Lead,	2017	209,077	55,075	79,763	12,090	356,005
Electronic Controls	2016	—	—	—	—	—
Craig Roser	2018	238,654	4,225	269,050	24,152	536,081
Global Lead, CVT	2017	205,000	30,826	159,525	13,439	408,790
Sales and Business	2016	155,985	—	—	11,985	167,970
Development						

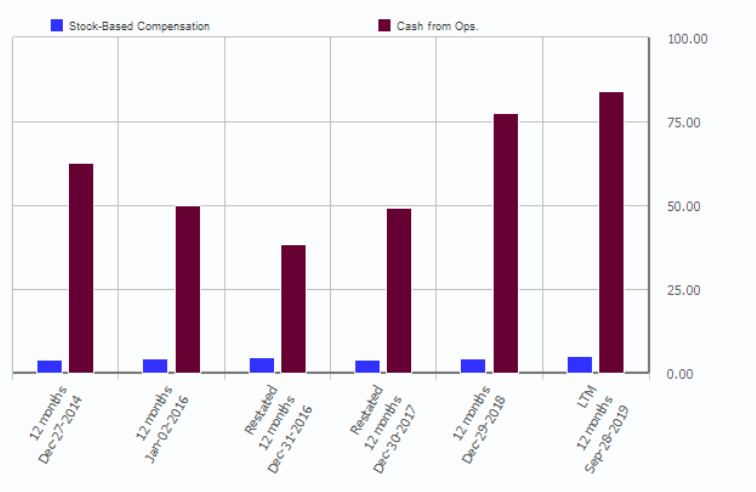
Executive pay has skyrocketed over the past three fiscal years. This is troubling, given the fact that they have, over that same time, been burning through cash, taking on large amounts of debt, and running overall narrow profit margins. Pay for every executive listed has doubled or more over this timeframe.

Stock-Based Compensation Peer Analysis :

	SBC/CFFO	SBC/FCFF	SBC/EBITDA
Average	11.07%	22.17%	6.79%
Median	8.84%	21.47%	5.38%
Helios	5.95%	9.19%	3.70%

As demonstrated in the chart above, the SBC for Helios appears to be within reasonable levels as compared to their peer group listed in the DEF 14A. They fall below both peer averages and medians, leading to the conclusion that their SBC is within a reasonable range, when compared to their direct competitors.

Individual Stock-Based Compensation Analysis :

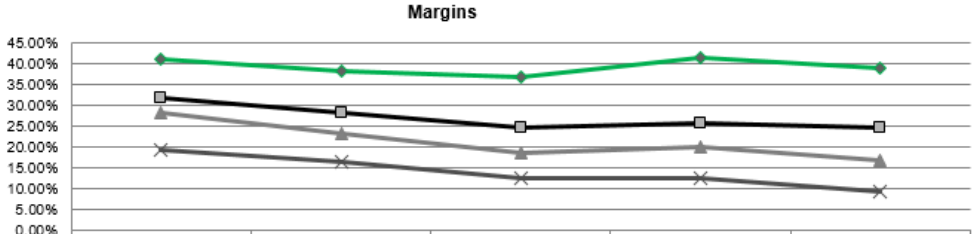


SBC appears to be level, relative to growth in cash from operations. It appears that they would plan on keeping their level of SBC stable for the foreseeable future. If they haven't raised it with the explosion in CFFO, it wouldn't make sense that there should be an unreasonable spike in SBC anytime soon.

Net Change in Cash (incl SBC)	1.9	25.1	(7.7)	(10.3)	(40.4)	(2.2)
Net Change in Cash (excl SBC)	(2.0)	20.7	(12.5)	(14.3)	(44.7)	(7.2)
SBC/NCC (incl)	203.7%	15.7%	-51.1%	-38.2%	-9.7%	-178.8%
SBC/NCC (excl)	-196.4%	19.0%	-31.4%	-27.4%	-8.8%	-54.9%

When you take a look at how SBC effects their overall net changes in cash, it does not appear that SBC has made any major differences in the cash balances Helios is carrying. Since their SBC is relatively small when compared to their peers, it would be wise to look into other areas to fix their current cash problems (i.e., their overall consistent burning of cash year over year). It would make more sense for them to look into how much they're burning to refinance their long-term debt, accounts receivables, and inventory to fix their current cash problems (and, if history is a guide, it doesn't seem like they have or will be doing this).

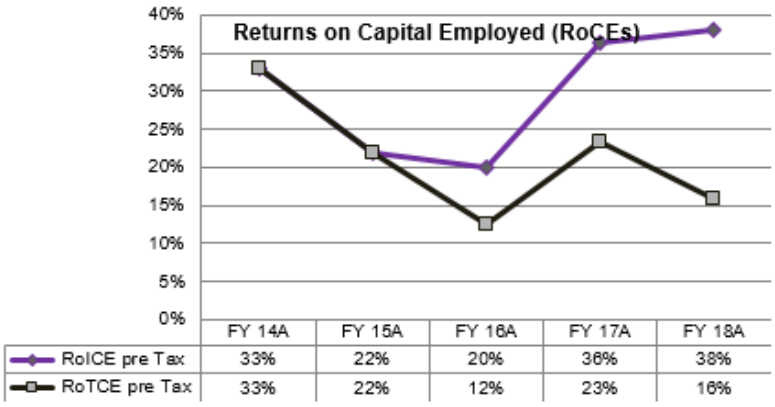
b. Margins Evolution



	FY 14A	FY 15A	FY 16A	FY 17A	FY 18A
Gross margin	41.24%	38.41%	36.75%	41.31%	38.80%
EBITDA margin	32%	28%	25%	26%	25%
EBIT margin	28%	23%	19%	20%	17%
Net margin	19%	17%	13%	13%	10%

Helios margins have been decreasing for all but the gross margins. The EBITDA margin as well as the EBIT and Net margin are all showing signs of downtrend for the past 5 years underlying a cost management issue from the company's management. As gross margins grew in 2017, it was nonetheless not followed by mid and bottomline profitability margins which underlines a constant issue in managing operating costs.

	FY 14A	FY 15A	FY 16A	FY 17A	FY 18A
Net PP&E	77,716	74,121	80,515	91,931	126,868
Operating Working Capita	116,382	141,046	105,737	97,107	99,261
ICE (Industrial Capital E	194,098	215,167	186,252	189,038	226,129
Incremental ICE	(21,069)	28,915	(2,786)	(37,091)	226,129
Goodwill & Intangibles	5,141	4,988	216,148	213,000	703,679
Goodwill	*5,141*	*4,988*	*105,585*	*108,869*	*583,131*
TCE (Total Capital Emp	194,098	215,167	298,817	293,169	546,677
Incremental TCE	(21,069)	(83,650)	5,648	(253,508)	546,677
EBIT	64,071	46,891	37,017	68,653	86,091
Incremental EBIT	110,962	83,908	(31,636)	(17,438)	86,091
RoICE pre Tax	33%	22%	20%	36%	38%
Incremental RoICE	-527%	290%	1136%	47%	38%
RoTCE pre Tax	33%	22%	12%	23%	16%
Incremental RoTCE	-527%	-100%	-560%	7%	16%



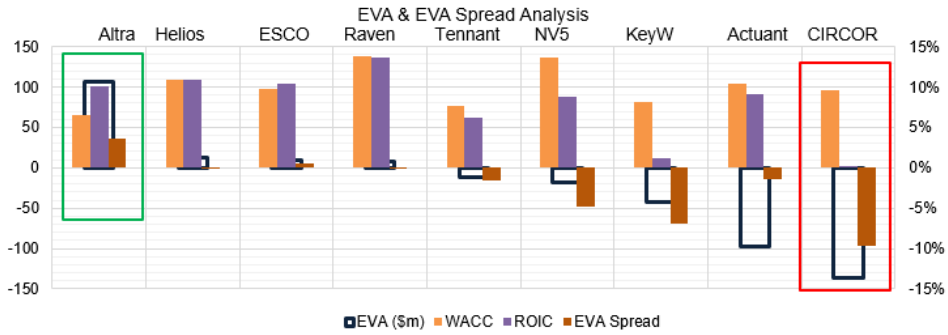
	FY 14A	FY 15A	FY 16A	FY 17A	FY 18A
RoICE pre Tax	33%	22%	20%	36%	38%
RoTCE pre Tax	33%	22%	12%	23%	16%

Our analysis showed that Helios has been altering negatively its return on capital employed as highlighted on the left chart. The RoICE pre-tax shows positive growth from 2016 to 2018, but the RoTCE pre-tax does not follow the trend. This is due to the ineffective management of the company's Total Capital Employed versus a positive management of the Industrial Capital Employed as graphically shown. We believe that Helios' management should immediately take action to increase its RoTCE pre-tax given the obvious appearance of a mismanagement of the latest return on capital employed for acquisitions under the Goodwill and Intangible lines that do not yield a sufficient return as compared to its RoICE pre-tax for the last three fiscal years.

In order to emphasize on our latest argument supporting the negative trend in RoTCE pre-tax of Helios, we decided to conduct a peer analysis of the EVA spread given companies' specific weighted average cost of capital and return on invested capital. The table and the accompanying chart below supports that Helios, from its close peers group selected, yields second in term of EVA spread by largest to lowest out of 9 peers and has generated in 2018 $12.05m in EVA versus an average of -$19.21m.

Peers EVA & EVA Spread Analysis (as of 2018)

	WACC	EVA ($m)	ROIC	EVA Sprea
Altra Industrial Motion Corp	6.47%	106.05	10.09%	3.62%
Helios Technologies	**10.98%**	**12.05**	**10.88%**	**-0.10%**
ESCO Technologies Inc	9.82%	8.73	10.42%	0.60%
Raven Industries Inc	13.78%	7.13	13.63%	-0.15%
Tennant Company	7.67%	-12.30	6.14%	-1.53%
NV5 Global Inc	13.58%	-18.59	8.84%	-4.74%
The KeyW Holding Corporation	8.19%	-42.00	1.25%	-6.94%
Actuant Corporation	10.50%	-97.00	9.05%	-1.45%
CIRCOR International Inc	9.69%	-137.00	0.03%	-9.66%



c. Board of Directors overview

The board is independent and qualified for their positions. Per a review of independence in March of 2018, it was determined that there were no transactions or relationships between any of the Directors or any member of the Director's immediate family and the Company and its 7 subsidiaries and affiliates. As a note, it may be mindful to keep an eye on their CEO, as he is currently the president, CEO, and director of the board for the company. Typically, it would be best to see these roles divided up, however Wolfgang Dangel holds all three titles. It is not currently a high-level of concern, but it is something to keep note of and pay a mindful eye to anytime governance may change, or new board elections happen.

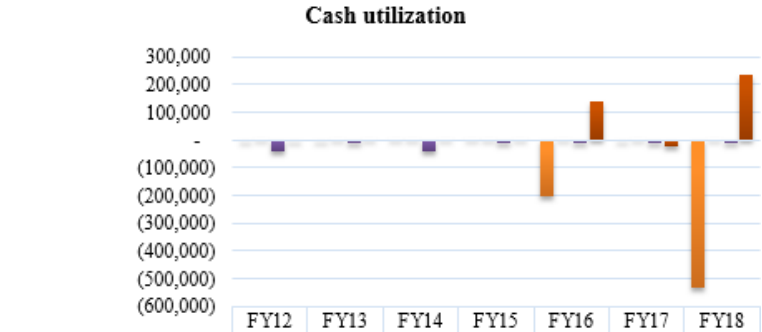
All members of the board have served previously in high-level leadership roles, whether it has been within Helios, with an acquired subsidiary, or with an independent firm, the members of the board are qualified and seem to all have several years of various forms of management experience under their belts. As an example, the President, CEO, and Director of the Board, Wolfgang Dangel, served previously in high-capacity roles with Schaeffer Automotive Global. He served as President of their Asia/Pacific group from 2007 to 2011, President and member of the Executive Board from 2011 to 2013, and was a consultant to the firm from 2014 to 2016, before joining Helios in April of 2016.

d. Historic use of cash per selected segments

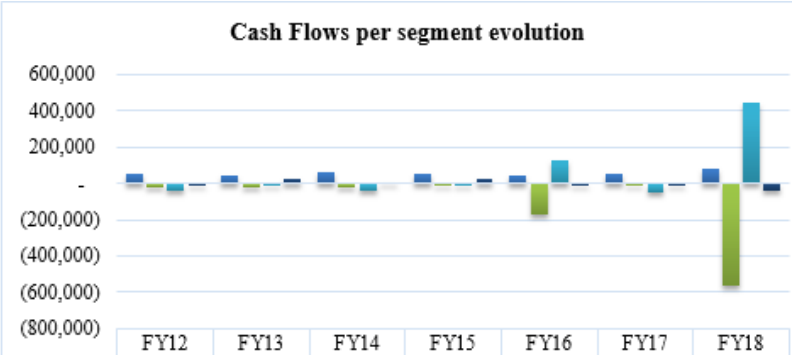
As per the following graph underlying the different utilization of cash, we can observe that acquisitions have been the main use of cash in the last 6 years. Dividend payment has been consistent around the $10m level except for FY12 and FY14.

Since FY2016, Helios has seen a negative net change in cash every year. There have been a few key constituencies that have contributed to this burning of cash. Since net cash went negative, change in accounts receivables and inventory have both been negative. They have also increased their dividend payout from $9.7MM in 2016, to $11.5MM LTM 2019. The burning of cash in these fundamental areas cannot be sustainable. If they're ripping through cash every year, how can they justify raising their dividend, losing money to accounts receivables, and burning through inventory at the expense of cash?

Additionally, some big picture items have caused them to ramp up the rate at which they are churning through cash. They made a sizable acquisition in 2018, expending $565.5MM in cash. Since, they have also repaid $150.7MM and $152.0MM in long-term debt in 2018 and LTM 2019, respectively. This expense of cash in large sums has put downward pressure on their ability to retain cash. In fact, they burned through over 4x as much cash in 2017 as they did in 2018 at a negative flow of a whopping $40.4MM.

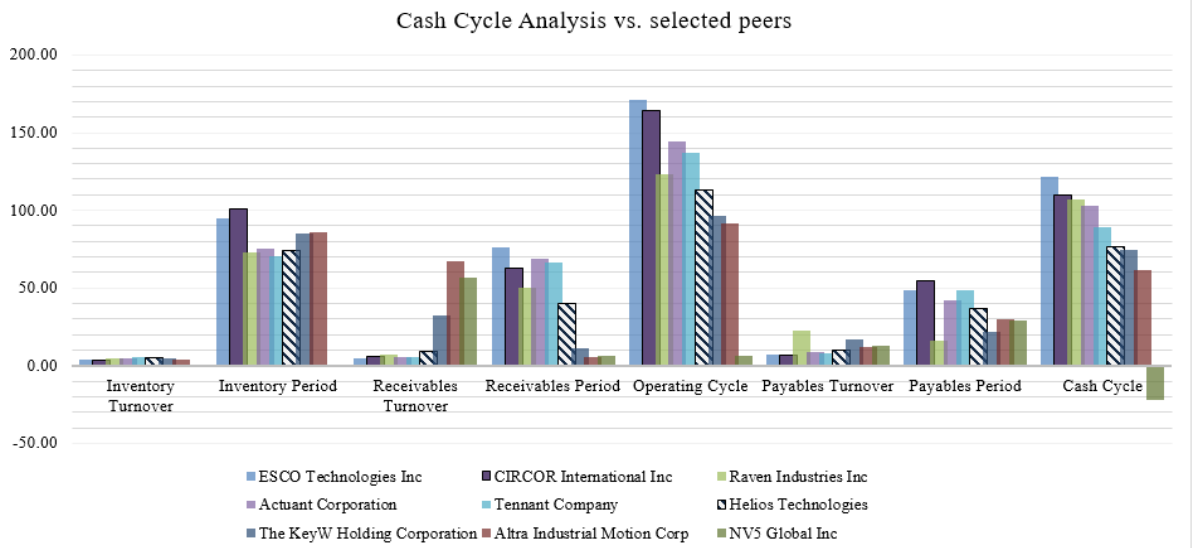


	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Acquisitions	(1,140)	(923)	-	-	(200,056	(500)	(534,662
Share Repurchase	-	-	-	-	-	-	-
Dividend Payment	(40,900)	(9,435)	(38,357)	(11,999)	(10,744)	(10,260)	(11,003)
Debt Repayment/Issue	(169)	-	-	-	140,000	(24,000)	237,436



	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CFO	52,198	47,123	62,846	49,902	38,506	49,382	77,450
CFI	(22,026)	(20,220)	(18,176)	(9,313)	(169,788	(15,974)	(565,515
CFF	(40,553)	(8,278)	(37,359)	(10,817)	128,223	(50,089)	447,340
NCC	(8,356)	20,434	1,931	25,133	(7,718)	(10,336)	(40,407)

f. Inventory analysis



Our inventory analysis that we conducted in order to get a cash conversion cycle for all Helios' close peers shows that Helios currently holds the third to first place in term of CCC period, highly impacted by their inventory turnover ratio which is the highest of the peers' group. Its payables period ratio is also above average versus the selected peer group and shows a weakness in the company's ability to convert its sales and inventory to cash versus its peers.

g. Multiples

A. P/E Multiples- 5 year Average

High	34.9x
Low	20.5x

B. P/B Multiples= 5 year Average

High	5.3x
Low	3.2x

C. P/CF Multiples- 5 year Average

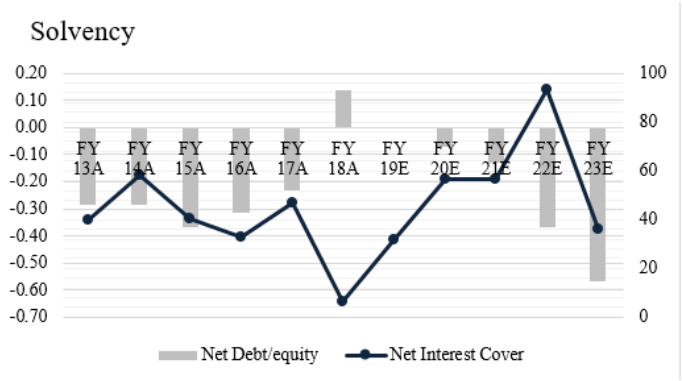
High	38.5x
Low	21.7x

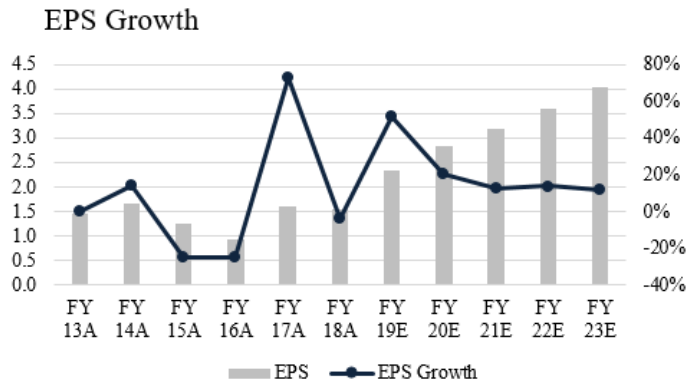
D. EV/EBITDA- 5 year Average

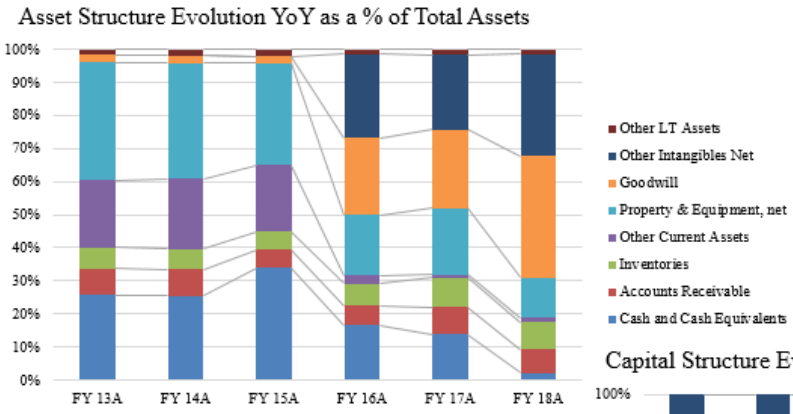
High	18.6x
Low	10.7x

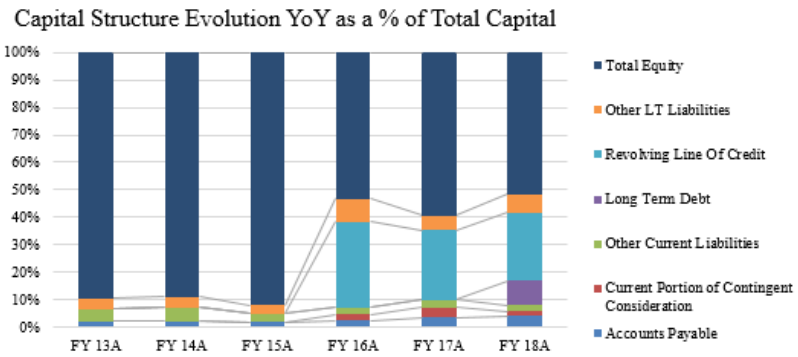
III. Metrics

We conducted an in-depth metrics analysis in order to sort the company's solvency, profitability, growth and asset/capital structure.









Primary drivers of change for the Income Statement :

Helios Technologies introduced their Vision 2025 in 2016 with a goal in mind to try and achieve $1billion in sales by the year 2025. In order to try and make their goal a reality, Helios has been targeting organic sales within their Hydraulics segment and Electronics segment. They have also engaged in a large number of acquisitions that have significantly impacted their revenue. The company has been focused on product development from both a Hydraulic and Electronic segment stand point. In terms of acquisitions, Helios would like to focus on improving their operating performance of their recently acquired businesses, but would also like to continue to build relationships with potential acquisition targets that could advance their technology capabilities. Each of the acquisitions that have taken place since 2016 has improved and expanded their technology, and has put them one step closer to achieving their vision. A major cost that was incurred was due to a restructructing that took place in 2017. They merged two operations of two subsidiaries within their Electronics segment, with costs for the restructuring totaling $1.4million. Demand for their goods has remained positive and stable, which has driven sales growth to continue to increase. Interest expenses increase from 2017 to 2018 because Helios Technologies drew more on their line of credit in order to fund acquisition activities in the year 2018. Helios technologies acquired three companies during 2018, so this contributed significantly to changes in the income statement. Not only did these acquisitions contribute to an increase in costs, it also contributed to a growth in sales.

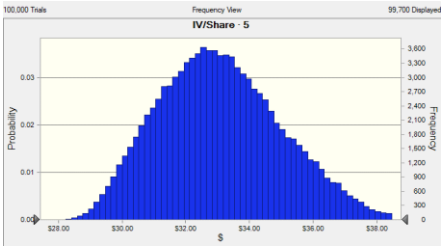
Primary comments about the Balance Sheet :

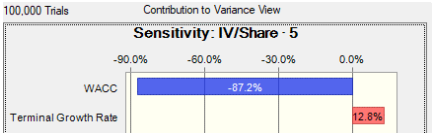
In the past, management has not utilized much debt in order to fund operations. In fact, until 2018, Helios Technologies had not utilized any debt, but rather was able to cover costs through internal financing.
In the year 2018, Helios Technologies became more reliant on debt in order to fund several acquisitions. These acquisition included obtaining Faster, Custom Fluidpower, and Enovation Controls.
There is not a specific target level of debt stated, but it was made clear by management that within the coming years, they would like to pay down their debt. There isn’t a desire to take on more debt, because debt has mainly been utilized for large acquisitions, and management does not see any major acquisitions taking place in the near future.

IV. Valuation

We valued Helios Technologies using a simple DCF with additional sensitivity tables and conducted 100,000 monte carlo simulations to the share price sensitivity to changes in the weighted average cost of capital and terminal growth rate.

Our conclusion and the final distribution of probabilities to the sensitivity of the share price to TG and WACC confirms a valuation at an intrinsinc value per share of $32.99 given a simple capital gain yield and a target intrinsinc value per share of $33.22 given the inclusion of the company current dividend yield of 0.79%. Our DCF implied target intrinsinc value per share of $32.96 given simple capital gain yield underlines a SELL initiation with a downside of 28.10% from the current price per share of $45.84.





Fiscal Year End	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
Time	1	2	3	4	5
NOPAT	76,212	87,432	99,186	110,924	121,998
+D&A	18,377	18,344	18,243	17,980	17,921
+Change in W/C	(5,783)	(6,486)	(7,189)	(7,892)	(8,594)
+CAPEX	(32,500)	(35,152)	(37,523)	(39,613)	(41,422)
+Acquisitions	-	-	-	-	-
=FCFF	56,306	64,138	72,717	81,399	89,902

Discounted FCFF	55,049	61,307	67,957	74,373	80,310
					91,954
Terminal Value					1,223,166
Discounted					766,432
Value of the Company					1,105,429
+Cash					23,477
-Debt					96,935
Intrinsic Value of the Equity					1,031,971
Shares Outstanding					31,309
IV/Share					$32.96

WACC	9.80%
Terminal Growth Rate	2.28%

Current Price	$	44.06
Up/Downside		-25.19%
Dividend Y.		0.79%
Total Return	$	33.22

Sensitivity Table 1: *IV/Share result given various Terminal Growth and WACC rates*

TG Assumptions \ WACC Assumptions	8.00%	8.25%	8.50%	8.75%	9.00%	9.25%	9.50%	9.75%	10.00%	10.25%	10.50%
1.80%	$ 38.97	$ 37.36	$ 35.88	$ 34.50	$ 33.23	$ 32.05	$ 30.94	$ 29.91	$ 28.95	$ 28.04	$ 27.19
2.00%	$ 40.03	$ 38.33	$ 36.76	$ 35.31	$ 33.97	$ 32.72	$ 31.57	$ 30.48	$ 29.48	$ 28.53	$ 27.64
2.20%	$ 41.17	$ 39.36	$ 37.70	$ 36.17	$ 34.75	$ 33.44	$ 32.23	$ 31.09	$ 30.03	$ 29.05	$ 28.12
2.40%	$ 42.40	$ 40.47	$ 38.71	$ 37.09	$ 35.59	$ 34.21	$ 32.93	$ 31.74	$ 30.63	$ 29.59	$ 28.62
2.60%	$ 43.73	$ 41.67	$ 39.79	$ 38.07	$ 36.48	$ 35.02	$ 33.67	$ 32.42	$ 31.26	$ 30.17	$ 29.16
2.80%	$ 45.16	$ 42.96	$ 40.95	$ 39.12	$ 37.44	$ 35.90	$ 34.47	$ 33.15	$ 31.93	$ 30.79	$ 29.73
3.00%	$ 46.72	$ 44.35	$ 42.21	$ 40.25	$ 38.47	$ 36.83	$ 35.32	$ 33.93	$ 32.64	$ 31.44	$ 30.33
3.20%	$ 48.41	$ 45.86	$ 43.56	$ 41.47	$ 39.57	$ 37.83	$ 36.23	$ 34.76	$ 33.40	$ 32.14	$ 30.96

Sensitivity Table 2: *Terminal Value result given various Terminal Growth and WACC rates*

TG Assumptions \ WACC Assumptions	8.00%	8.25%	8.50%	8.75%	9.00%	9.25%	9.50%	9.75%	10.00%	10.25%	10.50%
1.80%	1,476,134.83	1,418,920.30	1,365,975.51	1,316,839.70	1,271,116.10	1,228,461.20	1,188,576.09	1,151,199.49	1,116,101.94	1,083,081.17	1,051,958.15
2.00%	1,528,336.06	1,467,202.62	1,410,771.75	1,358,520.94	1,310,002.34	1,264,829.84	1,222,668.85	1,183,227.92	1,146,252.04	1,111,517.13	1,078,825.45
2.20%	1,584,137.38	1,518,677.15	1,458,412.19	1,402,747.60	1,351,176.00	1,303,261.95	1,258,629.70	1,216,953.22	1,177,948.30	1,141,366.06	1,106,987.56
2.40%	1,643,924.50	1,573,671.32	1,509,176.59	1,449,760.19	1,394,845.03	1,343,938.28	1,296,616.51	1,252,513.90	1,211,312.79	1,172,735.95	1,136,540.40
2.60%	1,708,140.30	1,632,558.87	1,563,382.65	1,499,830.51	1,441,243.38	1,387,061.30	1,336,805.45	1,290,064.00	1,246,480.76	1,205,746.09	1,167,589.57
2.80%	1,777,295.78	1,695,768.45	1,621,392.64	1,553,266.90	1,490,635.17	1,432,858.61	1,379,393.74	1,329,775.26	1,283,602.51	1,240,528.60	1,200,251.69
3.00%	1,851,983.69	1,763,793.99	1,683,621.54	1,610,420.60	1,543,319.75	1,481,586.96	1,424,602.84	1,371,839.77	1,322,845.50	1,277,230.13	1,234,655.80
3.20%	1,932,895.60	1,837,207.70	1,750,546.96	1,671,693.50	1,599,637.74	1,533,537.01	1,472,682.36	1,416,473.11	1,364,396.90	1,316,014.03	1,270,945.05