

**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 March 30, 2019

Commission file number 0-21835

**SUN HYDRAULICS CORPORATION**

(Exact Name of Registration as Specified in its Charter)

**FLORIDA**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**1500 WEST UNIVERSITY PARKWAY  
SARASOTA, FLORIDA**  
(Address of Principal Executive Offices)

**34243**  
(Zip Code)

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

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, 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. (Check one):

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	<input type="checkbox"/>		

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   
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	SNHY	The NASDAQ Global Select Market

The Registrant had 32,011,375 shares of common stock, par value \$.001, outstanding as of April 26, 2019.

Sun Hydraulics Corporation  
Doing Business as Helios Technologies  
INDEX  
For the quarter ended  
March 30, 2019

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 30, 2019 (unaudited) and December 29, 2018</u>	3
<u>Consolidated Statements of Operations for the Three Months Ended March 30, 2019 (unaudited) and March 31, 2018 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the Three months Ended March 30, 2019 (unaudited) and March 31, 2018 (unaudited)</u>	5
<u>Consolidated Statements of Shareholders' Equity for the Three months Ended March 30, 2019 (unaudited) and March 31, 2018 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Three months Ended March 30, 2019 (unaudited) and March 31, 2018 (unaudited)</u>	7
<u>Notes to the Consolidated, Unaudited Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosure</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	32

## PART I: FINANCIAL INFORMATION

Item 1.

**Sun Hydraulics Corporation**  
**Doing Business as Helios Technologies**  
**Consolidated Balance Sheets**  
**(in thousands, except share data)**

	March 30, 2019 (unaudited)	December 29, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,717	\$ 23,477
Restricted cash	39	38
Accounts receivable, net of allowance for doubtful accounts of \$1,482 and \$1,336	81,252	72,806
Inventories, net	88,896	85,989
Income taxes receivable	761	4,549
Other current assets	12,465	9,997
<b>Total current assets</b>	<b>200,130</b>	<b>196,856</b>
Property, plant and equipment, net	145,147	126,868
Deferred income taxes	8,411	9,463
Goodwill	377,606	383,131
Other intangibles, net	311,885	320,548
Other assets	4,619	5,299
<b>Total assets</b>	<b>\$ 1,047,798</b>	<b>\$ 1,042,165</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 41,328	\$ 40,879
Accrued compensation and benefits	15,226	13,260
Other accrued expenses and current liabilities	13,096	9,941
Current portion of contingent consideration	18,812	18,120
Current portion of long-term non-revolving debt, net	5,757	5,215
Dividends payable	2,881	2,878
Income taxes payable	1,457	2,697
<b>Total current liabilities</b>	<b>98,557</b>	<b>92,990</b>
Revolving line of credit	242,648	255,750
Long-term non-revolving debt, net	89,612	91,720
Contingent consideration, less current portion	867	840
Deferred income taxes	50,781	57,783
Other noncurrent liabilities	24,827	12,314
<b>Total liabilities</b>	<b>507,292</b>	<b>511,397</b>
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, 2,000,000 shares authorized, par value \$0.001, no shares outstanding	—	—
Common stock, 50,000,000 shares authorized, par value \$0.001, 31,995,700 and 31,964,775 shares outstanding	32	32
Capital in excess of par value	360,195	357,933
Retained earnings	232,445	219,056
Accumulated other comprehensive loss	(52,166)	(46,253)
<b>Total shareholders' equity</b>	<b>540,506</b>	<b>530,768</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,047,798</b>	<b>\$ 1,042,165</b>

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

**Sun Hydraulics Corporation**  
**Doing Business as Helios Technologies**  
**Consolidated Statements of Operations**  
**(in thousands, except per share data)**

	Three months ended	
	March 30, 2019	March 31, 2018
	(unaudited)	(unaudited)
<b>Net sales</b>	<b>\$ 146,851</b>	<b>\$ 97,318</b>
Cost of sales	90,342	59,701
<b>Gross profit</b>	<b>56,509</b>	<b>37,617</b>
Selling, engineering and administrative expenses	26,156	18,315
Amortization of intangible assets	4,521	2,049
<b>Operating income</b>	<b>25,832</b>	<b>17,253</b>
Interest expense, net	4,385	483
Foreign currency transaction (gain) loss, net	(439 )	511
Miscellaneous expense (income), net	108	(36 )
Change in fair value of contingent consideration	719	402
<b>Income before income taxes</b>	<b>21,059</b>	<b>15,893</b>
Income tax provision	4,655	3,982
<b>Net income</b>	<b>\$ 16,404</b>	<b>\$ 11,911</b>
<b>Basic and diluted net income per common share</b>	<b>\$ 0.51</b>	<b>\$ 0.40</b>
Basic and diluted weighted average shares outstanding	31,978	29,811
<b>Dividends declared per share</b>	<b>\$ 0.09</b>	<b>\$ 0.09</b>

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

**Sun Hydraulics Corporation**  
**Doing Business as Helios Technologies**  
**Consolidated Statements of Comprehensive Income**  
**(in thousands)**

	Three months ended	
	March 30, 2019	March 31, 2018
	(unaudited)	(unaudited)
<b>Net income</b>	<b>\$ 16,404</b>	<b>\$ 11,911</b>
Other comprehensive (loss) income		
Foreign currency translation adjustments, net of tax	(4,831)	2,495
Unrealized loss on interest rate swap, net of tax	(1,082)	—
Total other comprehensive (loss) income	(5,913)	2,495
<b>Comprehensive income</b>	<b>\$ 10,491</b>	<b>\$ 14,406</b>

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

**Sun Hydraulics Corporation**  
**Doing Business as Helios Technologies**  
**Consolidated Statements of Shareholders' Equity (unaudited)**  
**(in thousands)**

	<u>Preferred shares</u>	<u>Preferred stock</u>	<u>Common shares</u>	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total</u>
<b>Balance, December 29, 2018</b>	—	\$ —	31,965	\$ 32	\$ 357,933	\$ 219,056	\$ (46,253)	\$ 530,768
Shares issued, other compensation			6					—
Shares issued, ESPP			13		408			408
Shares issued, ESOP			24		1,092			1,092
Stock-based compensation					1,368			1,368
Cancellation of shares for payment of employee tax withholding			(12)		(606)			(606)
Dividends declared						(2,881)		(2,881)
Net income						16,404		16,404
Other comprehensive loss							(5,913)	(5,913)
Impact of adoption of ASU 2016-02, related to leases						(134)		(134)
<b>Balance, March 30, 2019</b>	<u>—</u>	<u>\$ —</u>	<u>31,996</u>	<u>\$ 32</u>	<u>\$ 360,195</u>	<u>\$ 232,445</u>	<u>\$ (52,166)</u>	<u>\$ 540,506</u>
<b>Balance, December 30, 2017</b>	—	\$ —	27,077	\$ 27	\$ 95,354	\$ 183,770	\$ (6,478)	\$ 272,673
Shares issued, restricted stock			100					—
Shares issued, other compensation			7					—
Shares issued, ESPP			9		371			371
Shares issued, public offering			4,400	5	239,788			239,793
Stock-based compensation					916			916
Cancellation of shares for payment of employee tax withholding			(5)		(240)			(240)
Dividends declared						(2,843)		(2,843)
Net income						11,911		11,911
Other comprehensive income							2,495	2,495
<b>Balance, March 31, 2018</b>	<u>—</u>	<u>\$ —</u>	<u>31,588</u>	<u>\$ 32</u>	<u>\$ 336,189</u>	<u>\$ 192,838</u>	<u>\$ (3,983)</u>	<u>\$ 525,076</u>

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

**Sun Hydraulics Corporation**  
**Doing Business as Helios Technologies**  
**Consolidated Statements of Cash Flows**  
**(in thousands)**

	Three months ended	
	March 30, 2019 (unaudited)	March 31, 2018 (unaudited)
<b>Cash flows from operating activities:</b>		
Net income	\$ 16,404	\$ 11,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,571	4,729
Loss on disposal of assets	71	—
Stock-based compensation expense	1,368	916
Amortization of debt issuance costs	179	98
(Benefit) provision for deferred income taxes	(322)	55
Change in fair value of contingent consideration	719	402
Forward contract losses, net	24	505
Other, net	549	(15)
(Increase) decrease in:		
Accounts receivable	(8,848)	(9,683)
Inventories	(3,729)	940
Other current assets	(2,455)	(219)
Other assets	1,088	(251)
Increase (decrease) in:		
Accounts payable	662	1,114
Accrued expenses and other liabilities	3,496	1,469
Income taxes payable	2,710	2,671
Other noncurrent liabilities	(659)	17
<b>Net cash provided by operating activities</b>	<b>19,828</b>	<b>14,659</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(8,792)	(4,237)
Proceeds from dispositions of equipment	64	3
<b>Net cash used in investing activities</b>	<b>(8,728)</b>	<b>(4,234)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on revolving credit facility	35,282	—
Repayment of borrowings on revolving credit facility	(48,000)	(116,000)
Borrowings on long-term non-revolving debt	—	932
Repayment of borrowings on long-term non-revolving debt	(1,623)	—
Proceeds from stock issued	408	240,163
Dividends to shareholders	(2,878)	(2,437)
Other financing activities	(881)	(240)
<b>Net cash (used in) provided by financing activities</b>	<b>(17,692)</b>	<b>122,418</b>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(167)	1,805
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(6,759)</b>	<b>134,648</b>
Cash, cash equivalents and restricted cash, beginning of period	23,515	63,922
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 16,756</b>	<b>\$ 198,570</b>

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

SUN HYDRAULICS CORPORATION  
Doing Business as Helios Technologies  
NOTES TO THE CONSOLIDATED, UNAUDITED FINANCIAL STATEMENTS  
(Dollars in thousands, except per share data)

## 1. COMPANY BACKGROUND

Sun Hydraulics Corporation, doing business as Helios Technologies (“Helios” or the “Company”), and its wholly-owned subsidiaries, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. On August 6, 2018, the Company announced that it had adopted Helios Technologies as its business name. Sun Hydraulics, LLC (“Sun Hydraulics” or “Sun”), a newly-formed Florida limited liability company that holds the historical net operating assets of the Sun Hydraulics brand entities and Custom Fluidpower Pty Ltd (“Custom Fluidpower”), along with Enovation Controls, LLC (“Enovation Controls”) and Faster S.r.l. (“Faster”) are the wholly-owned operating subsidiaries of Helios Technologies under the new holding company name.

The Company operates in two business segments, Hydraulics and Electronics. There are three key technologies within our Hydraulics segment: cartridge valve technology (“CVT”), quick-release hydraulic coupling solutions (“QRC”) and hydraulic system design (“Systems”). Within CVT, our 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. In our Electronics segment, we are a leader in display and control integration solutions offering rugged and reliable instruments, coupled with expertise in J1939 engine protocol, to produce an industry-leading array of easy-to-read displays and gauges for controller area network (“CAN”) transmitted engine data and faults. We refer to this technology as Electronic Controls (“EC”).

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 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 29, 2018, filed by Sun Hydraulics Corporation with the Securities and Exchange Commission on February 26, 2019. 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 three-month period ended March 30, 2019, are not necessarily indicative of the results that may be expected for the period ending December 28, 2019.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the standard for the fiscal year beginning December 30, 2018, using the effective date method which required a cumulative-effect adjustment to be recorded to the opening balance of retained earnings. Under the effective date method, financial results reported in periods prior to fiscal year 2019 are unchanged. The Company also elected the package of practical expedients, which among other things, does not require reassessment of lease classification. As of the adoption date, recorded right-of-use (“ROU”) assets and liabilities of approximately \$13,918 were added to the balance sheet and a cumulative-effect adjustment of \$ 134 was recognized in retained earnings.



The Company determines whether an arrangement is a lease at its inception. Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and are presented in Property, plant and equipment in the Consolidated Balance Sheets. Operating lease liabilities represent the Company's obligation to make lease payments arising from the leases and are presented in Other accrued expenses and current liabilities and Other noncurrent liabilities in the Consolidated Balance Sheets. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company utilizes an estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Company considers its existing credit facilities when calculating the incremental borrowing rate.

Lease terms include options to extend the lease when it is reasonably certain that the Company will exercise the option. Leases with a term of 12 months or less are not recorded on the balance sheet. There are no residual value guarantees included in the Company's leases.

#### *Contract Assets & Liabilities*

Contract assets are recognized when the Company has a conditional right to consideration for performance completed on contracts. Contract asset balances totaled \$2,175 and \$2,851 at March 30, 2019 and December 29, 2018, respectively, and are presented in Other current assets in the Consolidated Balance Sheets. Accounts receivable balances represent unconditional rights to consideration from customers and are presented separate from contract assets in the Consolidated Balance Sheets.

Contract liabilities are recognized when payment is received from customers prior to revenue being recognized. Contract liabilities totaled \$ 265 and \$138 at March 30, 2019 and December 29, 2018, respectively, and are presented in Other accrued expenses and current liabilities in the Consolidated Balance Sheets.

#### *Derivative Instruments and Hedging Activities*

All derivative instruments are recorded gross in the Consolidated Balance Sheets at their respective fair values. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is initially reported as a component of accumulated other comprehensive income ("AOCI") and is subsequently reclassified into the line item within the Consolidated Statements of Operations in which the hedged items are recorded in the same period in which the hedged item affects earnings.

The Company enters into foreign exchange currency contracts that are not designated as hedging instruments for accounting purposes. Changes in the fair value of foreign exchange currency contracts not designated as hedging instruments are recognized in earnings. Derivative financial instruments are utilized as risk management tools and are not used for trading or speculative purposes.

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. The Company designates certain foreign currency denominated debt as hedges of net investments in foreign operations which reduces the Company's exposure to changes in currency exchange rates on investments in non-US subsidiaries. Gains and losses on net investments in non-U.S. operations are economically offset by losses and gains on foreign currency borrowings. The change in the U.S dollar value of foreign currency denominated debt is recorded in Foreign currency translation adjustments, a component of Accumulated other comprehensive income (loss).

#### *Research and Development*

The Company conducts research and development ("R&D") to create new products and to make improvements to products currently in use. R&D costs are charged to expense as incurred and totaled approximately \$3,900, and \$2,500 for the three months ended March 30, 2019 and March 31, 2018, respectively.

## Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the second step in the goodwill impairment test, which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

## Earnings Per Share

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

	Three Months Ended	
	March 30, 2019	March 31, 2018
Net income	\$ 16,404	\$ 11,911
Basic and diluted weighted average shares outstanding	31,978	29,811
Basic and diluted net income per common share	\$ 0.51	\$ 0.40

## 3. BUSINESS ACQUISITIONS

### Acquisition of Faster

On April 5, 2018, the Company completed the acquisition of Faster S.p.A, a worldwide leader in engineering, manufacturing, marketing and distribution of quick release hydraulic coupling solutions headquartered near Milan, Italy. Pursuant to the Share Purchase Agreement, the Company acquired all of the outstanding equity interests of Polyusus Lux IV S.a.r.l., a Luxembourg limited liability company and the owner of 100% of the share capital of Faster S.p.A. The acquisition was completed for cash consideration totaling \$532,408 and was financed with cash on hand from the Company's registered public stock offering and borrowings of \$358,000 on its credit facility. Subsequent to the acquisition, the legal structure of Faster was changed to Faster S.r.l.

Faster adds adjacent hydraulics products to the Company's portfolio of products and broadens end market reach, increasing the Company's presence in the growing agriculture market. The results of Faster's operations are reported in the Company's Hydraulics segment and have been included in the consolidated financial statements since the acquisition date.

The Share Purchase Agreement allows for future payments to the sellers for certain tax benefits realized within two years of the acquisition date. The estimated fair value of the contingent liability was determined to be \$938 as of the acquisition date. See Note 4 for a summary of the change in estimated fair value of the contingent liability.

The fair value of total purchase consideration consisted of the following:

Cash	\$	532,408
Acquisition date fair value of contingent consideration		938
Total purchase consideration		533,346
Less: cash acquired		(5,265)
Total purchase consideration, net of cash acquired	\$	528,081

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The allocation of the total purchase price, net of cash acquired, is as follows:

Accounts receivable	\$	24,638
Inventories		34,835
Other current assets		6,661
Property, plant and equipment		20,242
Goodwill		288,449
Intangible assets		248,823
Other assets		7,040
Total assets acquired		<u>630,688</u>
Accounts payable		(18,668)
Accrued expenses		(12,223)
Incomes taxes payable		(4,862)
Other current liabilities		(1,289)
Other noncurrent liabilities		(65,565)
Total liabilities assumed		<u>(102,607)</u>
Fair value of net assets acquired	\$	<u>528,081</u>

Goodwill is primarily attributable to Faster's assembled workforce and anticipated synergies and economies of scale expected from the operations of the combined company. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the acquisition. Of the total goodwill acquired, approximately \$4,337 is expected to be deductible for tax purposes.

Transaction costs of \$1,060 incurred in connection with the acquisition are included in Selling, engineering and administrative expenses in the Consolidated Statement of Operations for the three months ended March 31, 2018.

#### Intangible Assets

The fair value of identified intangible assets and their respective useful lives are as follows:

	Fair Value	Weighted-Average Amortization Periods (Yrs)
Trade name	\$ 25,740	18
Technology	13,483	13
Customer relationships	202,245	26
Sales order backlog	7,355	0.4
Identified intangible assets	<u>\$ 248,823</u>	24

#### Unaudited Pro Forma Information

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if Faster had been acquired as of the beginning of 2017. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment and interest expense from borrowings to fund the acquisition. Non-recurring pro forma adjustments directly attributable to the acquisition included in the pro forma information presented below include transaction costs totaling \$1,060, amortization of Faster pre-acquisition loan costs of \$2,328 and loss on forward contract entered into in connection with the acquisition totaling \$ 505.

The pro forma information does not reflect any operating efficiencies or potential cost savings that may result from the acquisition. Accordingly, the pro forma information is for illustrative purposes only and is not intended to present or be indicative of the actual results of operations of the combined company that may have been achieved had the acquisition actually occurred at the beginning of 2017, nor is it intended to represent or be indicative of future results of operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below.

	Three months ended	
	March 31, 2018	
Net sales	\$	138,258
Operating income		25,982
Net income		14,874
Basic and diluted net income per common share		0.47

#### *Acquisition of Custom Fluidpower*

On August 1, 2018, the Company acquired all of the outstanding equity interests of Custom Fluidpower Pty Ltd, an Australian proprietary limited liability company. The acquisition was completed pursuant to a Share Sale Agreement among the Company and the shareholders of Custom Fluidpower. The fair value of consideration paid at closing totaled \$26,655 and included 333,065 shares of the Company's common stock and cash of \$9,315; cash paid net of cash acquired totaled \$7,518. The cash consideration was funded with borrowings on the Company's credit facility.

Custom Fluidpower was acquired to further diversify the Company's hydraulics product and service portfolio and broaden the Company's global footprint. The results of Custom Fluidpower's operations are reported in the Company's Hydraulics segment and have been included in the consolidated financial statements since the date of acquisition. Supplemental pro forma information has not been provided as the acquisition did not have a material impact on the Company's consolidated results of operations.

The Company recorded \$5,111 in goodwill and \$7,556 in other identifiable intangible assets in connection with the acquisition; however, the purchase price allocation is preliminary, pending 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 date). Any such revisions or changes to the fair values of the tangible and intangible assets acquired and liabilities assumed may be material.

#### 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 March 30, 2019 and December 29, 2018.

	March 30, 2019			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Liabilities</b>				
Interest rate swap contract	\$ 3,831	\$ —	\$ 3,831	\$ —
Contingent consideration	19,679	—	—	19,679
Total	<u>\$ 23,510</u>	<u>\$ —</u>	<u>\$ 3,831</u>	<u>\$ 19,679</u>
	December 29, 2018			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Liabilities</b>				
Interest rate swap contract	\$ 2,309	\$ —	\$ 2,309	\$ —
Forward foreign exchange contracts	137	—	137	—
Contingent consideration	18,960	—	—	18,960
Total	<u>\$ 21,406</u>	<u>\$ —</u>	<u>\$ 2,446</u>	<u>\$ 18,960</u>

A summary of the changes in the estimated fair value of contingent consideration at March 30, 2019 is as follows:

Balance, December 29, 2018	\$	18,960
Change in estimated fair value		719
Balance, March 30, 2019	<u>\$</u>	<u>19,679</u>

During the first quarter of 2019, the Company recorded an adjustment to the estimated fair value of the contingent consideration liability incurred in connection with the acquisition of Faster. The adjustment was the result of revised estimates of future payments owed to the sellers for certain tax benefits to be realized.

## 5. INVENTORIES

	March 30, 2019	December 29, 2018
Raw materials	\$ 38,285	\$ 39,086
Work in process	29,605	26,871
Finished goods	26,120	23,963
Provision for obsolete and slow moving inventory	(5,114)	(3,931)
Total	<u>\$ 88,896</u>	<u>\$ 85,989</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 11 years. For the three months ended March 30, 2019, operating lease costs totaled \$908.

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

	March 30, 2019
Right-of-use assets	\$ 14,069
Current operating lease liabilities	\$ 2,904
Non-current operating lease liabilities	11,305
Total operating lease liabilities	\$ 14,209
Weighted average remaining lease term (in years):	6.0
Weighted average discount rate:	4.6 %

Supplemental cash flow and other information related to leases is as follows:

	Three Months Ended March 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 913
ROU assets obtained in exchange for new operating lease liabilities	\$ 901

Maturities of lease liabilities are as follows:

	March 30, 2019
2019 Remaining	\$ 2,710
2020	3,504
2021	3,448
2022	1,702
2023	1,356
2024	985
Thereafter	2,893
Total lease payments	16,598
Less: Imputed interest	(2,389)
Total lease obligations	14,209
Less: Current lease liabilities	(2,904)
Non-current lease liabilities	<u>\$ 11,305</u>

## 7. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

A summary of changes in goodwill by segment for the three months ended March 30, 2019, is as follows:

	Hydraulics	Electronics	Total
Balance at December 29, 2018	\$ 276,758	\$ 106,373	\$ 383,131
Faster acquisition measurement period adjustment	(343)	—	(343)
Currency translation	(5,182)	—	(5,182)
Balance at March 30, 2019	<u>\$ 271,233</u>	<u>\$ 106,373</u>	<u>\$ 377,606</u>

### Intangible Assets

At March 30, 2019, and December 29, 2018, intangible assets consisted of the following:

	March 30, 2019			December 29, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangibles:						
Trade names and brands	\$ 56,155	\$ (5,429)	\$ 50,726	\$ 56,604	\$ (4,712)	\$ 51,892
Non-compete agreements	950	(443)	507	950	(396)	554
Technology	31,770	(6,268)	25,502	32,004	(5,488)	26,516
Supply agreement	21,000	(4,900)	16,100	21,000	(4,375)	16,625
Customer relationships	228,650	(12,394)	216,256	232,275	(10,168)	222,107
Licensing agreement	3,716	(922)	2,794	3,716	(862)	2,854
	<u>\$ 342,241</u>	<u>\$ (30,356)</u>	<u>\$ 311,885</u>	<u>\$ 346,549</u>	<u>\$ (26,001)</u>	<u>\$ 320,548</u>

Amortization expense for the three months ended March 30, 2019, and March 31, 2018, was \$ 4,521 and \$ 2,049, respectively. Remaining amortization for 2019 is approximately \$13,706. Total estimated amortization expense for the years 2020 through 2024 is presented below.

Year:		
2020	\$	18,164
2021		18,064
2022		17,801
2023		17,741
2024		17,087
Total	<u>\$</u>	<u>88,857</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 are presented as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	Fair Value (1)	Fair Value (1)	Balance Sheet	Fair Value (1)	Fair Value (1)
	Location	March 30, 2019	December 29, 2018	Location	March 30, 2019	December 29, 2018
<b>Derivatives designated as hedging instruments:</b>						
Interest rate swap contract	Other assets	\$ —	\$ —	Other non-current liabilities	\$ 3,831	\$ 2,309
<b>Derivatives not designated as hedging instruments:</b>						
Forward foreign exchange contract	Other current assets	—	—	Other current liabilities	—	137
<b>Total derivatives</b>		<b>\$ —</b>	<b>\$ —</b>		<b>\$ 3,831</b>	<b>\$ 2,446</b>

The amount of gains and losses related to the Company's derivative financial instruments are presented as follows:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	
	March 30, 2019	March 31, 2018		March 30, 2019	March 31, 2018
	<b>Derivatives in cash flow hedging relationships:</b>				
Interest rate swap contract	\$ (1,521)	\$ —	Interest expense, net	\$ (183)	\$ —

Interest expense presented in the Consolidated Statements of Operations, in which the effects of cash flow hedges are recorded, totaled \$ 4,385 for the three months ended March 30, 2019.

	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		Location of Gain or (Loss) Recognized in Earnings on Derivatives
	March 30, 2019	March 31, 2018	
	<b>Derivatives not designated as hedging instruments:</b>		
Forward foreign exchange contracts	\$ (24)	\$ (505)	Foreign currency transaction gain loss, net

#### Interest Rate Swap Contract

Helios primarily utilizes variable-rate debt to finance its operations. The debt obligations expose the Company to variability in interest payments. The Company enters into various types of derivative instruments to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rates.

The Company has entered into an interest rate swap transaction to hedge the variable interest rate payments on the credit facilities. In connection with this transaction, the Company pays interest based upon a fixed rate as agreed upon with the respective counterparties and receives variable rate interest payments based on the one-month LIBOR. The interest rate swap has an aggregate notional amount of \$200,000, which decreases by \$25,000 annually starting in July 2019, and has been designated as a hedging instrument and accounted for as a cash flow hedge. The interest rate swap was effective on August 2, 2018 and is scheduled to expire on April 3, 2023. The contract is 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 transactional exposure associated with commitments arising from transactions denominated in a currency other than the functional currency of the respective operating entity. The Company's forward contracts were not designated as hedging instruments for accounting purposes.

During the quarter ended March 31, 2018, the Company entered into a forward foreign exchange currency contract, for the purchase of €370,000, to economically hedge transactional exposure associated with the acquisition of Faster, which was denominated in euros. The contract settled upon closing of the acquisition of Faster.

As of March 30, 2019, the Company did not have any forward foreign exchange contracts.

### Net Investment Hedge

The Company utilizes foreign currency denominated debt to hedge currency exposure in foreign operations. During the first quarter of fiscal year 2019, the Company designated €30,000 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 \$33,648 as of March 30, 2019 and is included in the Revolving line of credit line item on the Consolidated Balance Sheets. The gain or loss on the net investment hedge recorded in AOCI as part of the currency translation adjustment was a gain of \$273, net of tax, for the quarter ended March 30, 2019. No amounts associated with the net investment hedge were reclassified from AOCI into income for the quarter ended March 30, 2019.

## 9. CREDIT FACILITIES

Total long-term non-revolving debt consists of the following:

	Maturity Date	March 30, 2019		December 29, 2018	
Long-term non-revolving debt:					
Term loan credit facility with PNC Bank	4/3/2023	\$	95,000	\$	96,250
Term loan credit facility with Shinhan Bank	3/30/2020		880		895
Other long-term debt	Various		475		838
Total long-term non-revolving debt			96,355		97,983
Less: current portion of long-term non-revolving debt			5,757		5,215
Less: unamortized debt issuance costs			986		1,048
Total long-term non-revolving debt, net		\$	89,612	\$	91,720

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

	Maturity Date	Balance		Available credit	
		March 30, 2019	December 29, 2018	March 30, 2019	December 29, 2018
Revolving line of credit with PNC	4/3/2023	\$ 242,648	\$ 255,750	\$ 157,352	\$ 144,250

Future maturities of total debt are as follows:

Year:	
2019 Remaining	\$ 3,843
2020	7,268
2021	7,656
2022	8,834
2023	311,402
Total	\$ 339,003

The Company has a revolving line of credit and term loan credit facility with PNC Bank, National Association, as administrative agent, and the lenders party thereto. The revolving line of credit allows for up to an aggregate maximum principal amount of \$400,000. During the first quarter of 2019, the Company exchanged a portion of the USD denominated borrowings for €30,000 in order to hedge currency exposure in foreign operations. The Company designated the borrowings as a net investment hedge, see additional discussion in Note 8.

The effective interest rate on the credit agreement at March 30, 2019 was 4.24%. Interest expense recognized on the credit agreement during the three months ended March 30, 2019 and March 31, 2018, totaled \$4,164 and \$702, respectively. As of the date of this filing, the Company was in compliance with all debt covenants related to the credit agreement.

The Company has a credit agreement with Shinhan Bank that provides a term loan of 1,000,000 Korean won. The loan matures in March 2020, at which time the full amount will become due. Interest is charged at a one-year variable rate, 2.05% as of March 30, 2019.

The Company had a revolving line of credit with National Australia Bank that allowed for maximum borrowings of 3,000 Australian dollars. Principal and interest were paid in full on January 31, 2019, at which time the facility was closed.



The Company's other long-term debt primarily consists of auto loans payable to National Australia Bank. Principal and interest payments are due monthly. The loans mature at various dates through January 2024. Interest is charged at various rates ranging from 4.0% to 5.3%.

## 10. PUBLIC STOCK OFFERING

On February 6, 2018, the Company completed a public offering of its common stock, pursuant to which the Company sold 4,400,000 shares at a public offering price of \$57.50 per share. The Company received net proceeds from the sale totaling \$239,793, after deducting the underwriting discount and other offering expenses. The Company used the net proceeds for the repayment of debt under its credit facility and to partially fund the acquisition of Faster, which closed on April 5, 2018.

## 11. INCOME TAXES

At March 30, 2019, the Company had an unrecognized tax benefit of \$ 6,899 including accrued interest. If recognized, the unrecognized tax benefit would have a favorable effect on 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 March 30, 2019 is not considered material to the Company's consolidated financial statements.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company is no longer subject to income tax examinations by tax authorities for years prior to 2008 for the majority of tax jurisdictions where the Company files tax returns.

The Company's U.S. federal income tax returns are currently under examination by the Internal Revenue Service (IRS) in the United States for the periods 2008 through 2012. Florida income tax returns for tax years 2015 and 2016 are under examination. The 2016 pre-acquisition Italian income tax return for Faster is also under examination. To date, there have not been any significant proposed adjustments that have not been accounted for in the Company's consolidated financial statements.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next twelve months, the Company will resolve some or all of the matters presently under consideration for both its federal and state examinations and there could be significant increases or decreases to unrecognized tax benefits.

## 12. STOCK-BASED COMPENSATION

### Equity Incentive Plan

The Company's 2011 Equity Incentive Plan provides for the grant of shares of restricted stock, restricted share units, 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.

### Restricted Stock and Restricted Stock Units

The Company grants restricted shares of common stock and restricted stock units ("RSU") in connection with a long-term incentive plan. Awards with time-based vesting requirements 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.

Compensation expense recognized for restricted stock and RSUs totaled \$ 811 and \$495, respectively, for the three months ended March 30, 2019, and March 31, 2018.

The following table summarizes restricted stock and RSU activity for the three months ended March 30, 2019:

	Number of shares (in thousands)	Weighted average grant-date fair value
Nonvested balance at December 29, 2018	146	\$ 48.66
Granted (1)	126	37.95
Vested	(42)	47.05
Forfeited	(13)	47.90
Nonvested balance at March 30, 2019	217	\$ 42.78

(1) Approximately 34,000 performance based RSUs were granted during 2019 and are included as granted in the table above. The number of shares that ultimately vest may vary from 0% to 150% of their target vesting amount based on the achievement of defined performance targets.

The Company had \$8,708 of total unrecognized compensation cost related to the restricted stock and RSU awards granted under the 2011 Plan as of March 30, 2019. That cost is expected to be recognized over a weighted average period of 2.1 years.

#### Employee Stock Purchase Plans

The Company maintains an Employee Stock Purchase Plan (“ESPP”) in which the U.S. employees of Helios, Sun Hydraulics and Enovation Controls are eligible to participate. Employees in the United States 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, 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 14,387 shares at a weighted average price of \$ 28.37, and 8,110 shares at a weighted average price of \$ 45.79, under the ESPP and U.K. plans during the three months ended March 30, 2019, and March 31, 2018, respectively. The Company recognized \$255 and \$63 of compensation expense during the three months ended March 30, 2019, and March 31, 2018, respectively.

#### Nonemployee Director Fees Plan

The Company’s 2012 Nonemployee Director Fees Plan compensates nonemployee Directors for their board service with shares of common stock.

Directors were granted 5,875 and 6,625 shares for the three months ended March 30, 2019 and March 31, 2018, respectively. The Company recognized director stock compensation expense of \$285 and \$365 for the three months ended March 30, 2019 and March 31, 2018, respectively.

### 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Unrealized Gains and Losses on Derivative Instruments	Foreign Currency Items	Total
Balance at December 29, 2018	\$ (2,309)	\$ (43,944)	\$ (46,253)
Other comprehensive loss before reclassifications	(1,666)	(7,239)	(8,905)
Amounts reclassified from accumulated other comprehensive loss	144	—	144
Tax effect	440	2,408	2,848
Net current period other comprehensive loss	(1,082)	(4,831)	(5,913)
Balance at March 30, 2019	<u>\$ (3,391)</u>	<u>\$ (48,775)</u>	<u>\$ (52,166)</u>

	Unrealized Gains and Losses on Derivative Instruments	Foreign Currency Items	Total
Balance at December 30, 2017	\$ —	\$ (6,478)	\$ (6,478)
Other comprehensive income before reclassifications	—	2,495	2,495
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive income	—	2,495	2,495
Balance at March 31, 2018	<u>\$ —</u>	<u>\$ (3,983)</u>	<u>\$ (3,983)</u>

### 14. SEGMENT REPORTING

The Company has two reportable business 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 makers.

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 below. For the three months ended March 30, 2019, the unallocated costs included certain corporate costs not deemed to be allocable to either business segment of \$4,442 which primarily relate to the amortization of acquisition-related intangible assets. The accounting policies of the Company's business segments are the same as those used to prepare the accompanying consolidated financial statements.

The following table presents financial information by reportable segment:

	Three months ended	
	March 30, 2019	March 31, 2018
<b>Net sales</b>		
Hydraulics	\$ 116,463	\$ 62,609
Electronics	30,388	34,709
<b>Total</b>	<u>\$ 146,851</u>	<u>\$ 97,318</u>
<b>Operating income</b>		
Hydraulics	\$ 23,762	\$ 13,442
Electronics	6,512	7,107
Corporate and other	(4,442)	(3,296)
<b>Total</b>	<u>\$ 25,832</u>	<u>\$ 17,253</u>
<b>Capital expenditures</b>		
Hydraulics	\$ 8,145	\$ 3,977
Electronics	647	260
<b>Total</b>	<u>\$ 8,792</u>	<u>\$ 4,237</u>
	<b>March 30, 2019</b>	<b>December 29, 2018</b>
<b>Total assets</b>		
Hydraulics	\$ 776,622	\$ 771,409
Electronics	264,998	263,412
Corporate	6,178	7,344
<b>Total</b>	<u>\$ 1,047,798</u>	<u>\$ 1,042,165</u>

### Geographic Region Information

Net sales are measured based on the geographic destination of sales. Tangible long-lived assets are shown based on the physical location of the assets and primarily include net property, plant and equipment and exclude ROU assets:

	Three months ended	
	March 30, 2019	March 31, 2018
<b>Net sales</b>		
Americas	\$ 67,706	\$ 56,471
Europe/Middle East/Africa	44,220	22,351
Asia/Pacific	34,925	18,496
<b>Total</b>	<u>\$ 146,851</u>	<u>\$ 97,318</u>
	<b>March 30, 2019</b>	<b>December 29, 2018</b>
<b>Tangible long-lived assets</b>		
Americas	\$ 85,125	\$ 83,664
Europe/Middle East/Africa	29,342	26,724
Asia/Pacific	16,611	16,480
<b>Total</b>	<u>\$ 131,078</u>	<u>\$ 126,868</u>

### 15. RELATED PARTY TRANSACTIONS

Enovation Controls purchases and sells inventory to an entity partially owned by one of its officers. For the three months ended March 30, 2019, and March 31, 2018, inventory sales to the entity totaled \$482 and \$861, respectively, and inventory purchases from the entity totaled \$1,455 and \$1,751, respectively.

At March 30, 2019, and December 29, 2018, amounts due from the entity totaled \$ 216 and \$296, respectively, and amounts due to the entity totaled \$489 and \$631, respectively.

#### 16. 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.

#### 17. SUBSEQUENT EVENTS

During April 2019, in accordance with the contingent consideration arrangement for the acquisition of Enovation Controls, the Company made the third and final payment to Enovation Controls' former owners totaling \$17,795.

## 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" and similar expressions identify forward-looking statements. In addition, any statements which 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 section and those identified in Item 1A, "Risk Factors" included in our 2018 Annual Report on 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 an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets, each of which serves as a reportable segment. There are three key technologies within our Hydraulics segment: cartridge valve technology ("CVT"), quick-release hydraulic couplings solutions ("QRC") and hydraulic system design ("Systems"). Within CVT, our 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. In our Electronics segment, we are a leader in display and control integration solutions offering rugged and reliable instruments, coupled with expertise in J1939 engine protocol, to produce an industry-leading array of easy-to-read displays and gauges for controller area network ("CAN") transmitted engine data and faults. We refer to this technology as Electronic Controls ("EC").

On August 6, 2018, we announced the adoption of Helios Technologies as our business name. Sun Hydraulics, LLC (a newly-formed Florida limited liability company that holds the historical net operating assets of the Sun Hydraulics brand entities and Custom Fluidpower), along with Enovation Controls and Faster are the three wholly-owned operating subsidiaries of Helios Technologies under the new holding company name. The changing of the holding company business name is a reflection of the tremendous growth the Company has accomplished over the last two years, including the addition of various operating companies under our umbrella. Shares of Helios Technologies continue to trade on Nasdaq as SNHY.

The operating results of the Hydraulics and Electronics segments included in MD&A are presented on a basis consistent with our internal management reporting. Segment information included in Note 14 to the Financial Statements is also presented on this basis. All differences between our internal management reporting basis and accounting principles generally accepted in the United States ("U.S. GAAP"), specifically the allocation of certain corporate and acquisition-related costs, are included in Corporate and Other.

#### *Vision 2025*

In 2016, we introduced our vision for the Company for the next decade. We believe it is important to reach a critical mass of \$1 billion in sales by 2025 while remaining a technology leader in the industrial goods sector. To achieve our goal, we are targeting organic sales of our Hydraulics segment, including Faster and Custom Fluidpower, of \$730 million, sales of our Electronics segment of \$200 million and acquisitions of \$70 million in revenue. Through this growth, our decision-making process will consider our desire to maintain superior profitability and financial strength. While acquisitions remain an important component of our long-term strategy, our near-term focus is on integrating our recently acquired businesses and improving operating performance.

Product development is a key factor to organic and synergistic growth in both the Hydraulics and Electronics segments, including joint development between the two segments. In the Hydraulics segment, our most recent product introductions have been electro-hydraulics products: the FLeX™ Series Solenoid Valves and the XMD Bluetooth-configurable electro-hydraulics driver. XMD represents the first of its kind from Sun Hydraulics and was jointly engineered by a team comprised of Hydraulics and Electronics segment personnel. We expect the trend for development of similar types of products to continue as capital goods markets move toward further electrification and digitalization of machines.

Acquisitions of companies that advance our technology capabilities will be critical to achieving our Vision 2025. Target product offerings include additional CVT, CVT-adjacent hydraulic products, electronic controls and implementation, and linked technologies such as electro-mechanical actuators, factory automation, software or products relevant to the Internet of Things. Cultivating relationships with potential acquisition targets can often be a lengthy process, but we believe it is key to creating successful acquisitions with sustainable business results. We have an established list of potential targets at any given time and entertain reviewing other opportunities for acquisition as they become known to us.

### ***Acquisitions***

In April 2018 we completed our acquisition of Faster, an Italian company headquartered near Milan, Italy. Faster is a worldwide leader in engineering, manufacturing, marketing and distribution of hydraulic coupling solutions. The completion of this acquisition brings us another step closer to the realization of our Vision 2025. Faster fits this strategy well and upholds a strongly innovative culture, driving new product development and market leadership. Faster further diversifies the Company more deeply into the growing global agriculture market. The business also broadens our global footprint, advancing our ‘in the region, for the region’ initiative.

On August 1, 2018, we completed our acquisition of Custom Fluidpower, a leading provider of hydraulic, pneumatic, electronic and instrumentation solutions. The company supplies hydraulic, pneumatic, filtration and lubrication products and offers complete system design, installation and commissioning, and service and repairs, to a broad range of industries including agriculture, aerospace, exploration, industrial, marine, mobile, mining and material handling. Headquartered in Newcastle, NSW, Australia, Custom Fluidpower has operational branches co-located with its headquarters as well as throughout Australia. Custom Fluidpower further diversifies our hydraulics product and service portfolio and broadens our global footprint.

### ***Global economic conditions***

In June 2016, voters in the United Kingdom (“UK”) approved the UK’s exit from the European Union (“EU”) (“Brexit”). The timing of the UK’s exit from the EU remains uncertain; the EU has extended the deadline for the UK to exit the EU until October 31, 2019. With the terms of the UK’s withdrawal and the nature of its future relationship with the EU still being decided, the Company continues to monitor the status of the negotiations and plan for any impact. We have considered the following factors that mitigate the potential impact of Brexit on the import and export of goods to and from the UK:

- Helios locations outside of the UK do not source raw materials or parts from UK suppliers;
- Parts and raw materials sourced by our UK locations from EU suppliers can also be sourced from local UK suppliers;
- EU customers served by our UK entities can be serviced by any of our global subsidiaries;
- Customers who relocate outside of the UK can be serviced by any of our global subsidiaries; and
- The level and type of business conducted at our UK entities limits our exposure to new regulatory risk resulting from Brexit.

The ultimate impact of Brexit on the Company's financial results is uncertain. However, based on the above noted mitigating factors, we do not expect the effects of Brexit to have a material impact on our results of operations or financial position. We are not aware of any material contracts that may require renegotiation or termination due to the impact of Brexit. For additional information, refer to the "Item 1A—Risk Factors" section of the Company's 2018 Annual Report on Form 10-K filed on February 26, 2019.

### **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. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), the U.S. index of shipments of hydraulic products increased 2% during the first three months of 2019 while orders decreased 2% during the same period. We have not realized a similar downward trend in our Hydraulics segment as order rates continue to show growth. The Institute of Printed Circuits Association reported that North American electronics industry sales growth remained positive for printed circuit boards (PCB) and electronics manufacturing services (EMS), while semiconductor sales growth continued to decline, entering negative territory.

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 higher level economic conditions.

### **2019 First Quarter Results and Comparison of the Three Months Ended March 30, 2019 and March 31, 2018**

Faster was acquired on April 5, 2018 and Custom Fluidpower was acquired on August 1, 2018. Our consolidated operating results for the three months ended March 30, 2019 include the results of Faster and Custom Fluidpower, while our consolidated operating results for the three months ended March 31, 2018 do not.

(in millions except net income per share)

	Three Months Ended			
	March 30, 2019	March 31, 2018	\$ Change	% Change
Net sales	\$ 146.9	\$ 97.3	\$ 49.6	51.0%
Gross profit	\$ 56.5	\$ 37.6	\$ 18.9	50.3%
Gross profit %	38.5%	38.6%		
Operating income	\$ 25.8	\$ 17.3	\$ 8.5	49.1%
Operating income %	17.6%	17.8%		
Net income	\$ 16.4	\$ 11.9	\$ 4.5	37.8%
Basic and diluted net income per common share	\$ 0.51	\$ 0.40	\$ 0.11	27.5%

First quarter consolidated sales improved \$49.6 million, 51.0%, over the prior-year period, of which \$49.0 million was contributed by Faster and Custom Fluidpower. Demand for our products in the Hydraulics segment remained strong as we realized organic sales growth in all geographic regions. Sales in the electronics segment weakened during the first quarter of 2019, which was primarily a result of the timing of model year rollouts for original equipment manufacturer ("OEM") customers as well as some softening end market conditions. Price increases favorably impacted sales during the quarter by \$2.1 million. Changes in foreign currency exchange rates negatively impacted sales of our historical businesses during the first quarter by \$1.3 million when compared to the prior-year quarter and had minimal impact on earnings per share ("EPS"). Compared with foreign currency exchange rates in effect at the respective acquisition dates, changes in exchange rates unfavorably impacted sales of Faster and Custom Fluidpower during the first quarter by \$2.4 million, and unfavorably impacted EPS for the quarter by \$0.01.

Gross profit margin remained relatively flat in the first quarter of 2019 at 38.5% compared to 38.6% in the prior-year first quarter. We realized margin improvement in our Electronics segment of 4.8 percentage points due to production efficiencies and successful cost management efforts and a slight decrease in Hydraulics segment productivity in the early part of the quarter related to our CVT manufacturing consolidation project, which was completed by the end of the quarter.



Operating income as a percentage of sales fell slightly to 17.6% in the first quarter of 2019 compared to 17.8% in the prior-year period primarily due to an increase of \$2.5 million in amortization of intangible assets related to the Faster and Custom Fluidpower acquisitions, partially offset by improved leverage of operating expenses.

The change in fair value of our contingent consideration liability incurred in connection with the Faster acquisition caused a decline in net income and EPS of \$0.6 million, and \$0.02, net of tax, respectively.

### **2019 Outlook**

Consolidated revenue for the full year 2019 is expected to be between \$580 million and \$590 million, with the Hydraulics segment contributing between \$464 million and \$469 million and the Electronics segment contributing between \$116 million and \$121 million. Consolidated U.S. GAAP EPS is expected to be \$2.10 to \$2.20 for the full year 2019. Consolidated non-GAAP cash EPS, which excludes amortization expense and certain one-time costs, is expected to be between \$2.55 and \$2.65. The full year adjusted EBITDA margin, prior to certain one-time costs, is anticipated to be 24.0% to 24.5%.

Our updated 2019 consolidated revenue guidance demonstrates growth over 2018 revenue. We reiterate our Hydraulics Segment revenue guidance. Our strong backlog and the completion of our CVT manufacturing consolidation project give us confidence to maintain Hydraulics revenue guidance for the year, even though we are starting to see slower growth in certain industries and geographies.

In Electronics, after organic growth of greater than 50% over the past two years since acquisition, we initiated an intentional shift in our customer base which materialized in the first quarter. We believe this change is in the long-term best interest of our business and positions us to take market share. This initiative includes the release of certain contractual obligations to customers that allows us to leverage all products to a broader and more diversified customer base. While this is temporarily dampening Electronics sales for 2019, it gives us the ability to secure new and important customer commitments for the start of production in 2020 and 2021.

In the overall macroeconomic environment, agriculture, oil and gas, recreational and, most recently, construction and material handling end markets are softening. There has been a shift in the outlook of these markets over the last few months that has caused us to take a closer look at our expectations.

We have revised our adjusted EBITDA margin to reflect the lower top line guidance. Our GAAP EPS and Non-GAAP Cash EPS remain the same even on the lower overall sales estimates, benefiting from a reduction in our depreciation estimates for the year. Our focus remains on making investments to further globalize our business, advancing our state-of-the-art manufacturing technologies, and introducing innovative market-leading products and solutions that result in market share gains. We reiterate the goals we established for Vision 2025.

## **SEGMENT RESULTS**

### **Hydraulics**

The following table sets forth the results of operations for the Hydraulics segment (in millions):

	Three months ended			\$ Change	% Change
	March 30, 2019	March 31, 2018			
Net sales	\$ 116.5	\$ 62.6	\$	53.9	86.1 %
Gross profit	\$ 42.6	\$ 23.4	\$	19.2	82.1 %
Gross profit %	36.6 %	37.4 %			
Operating income	\$ 23.8	\$ 13.4	\$	10.4	77.6 %
Operating income %	20.4 %	21.4 %			

The following table presents organic and acquisition related results for the first quarter (in millions):

	Three months ended March 30, 2019			
	Organic		Acquisition	
Net sales	\$	67.5	\$	49.0
Gross profit	\$	25.0	\$	17.6
Gross profit %		37.0 %		35.9 %
Operating income	\$	14.4	\$	9.4
Operating income %		21.3 %		19.2 %

First quarter net sales for the Hydraulics segment totaled \$116.5 million, representing growth of \$53.9 million, 86.1%, over the prior-year period. Organic sales increased \$4.9 million over the first quarter of 2018, representing growth of 7.8%, which was driven by increased demand in all geographic markets. While demand for Sun's products has remained strong, capacity constraints have limited growth in shipments, increasing our order backlog. As a result of the completion of Sun's CVT manufacturing consolidation project at the end of the first quarter, our production capacity is expected to improve throughout the remainder of 2019. Price increases, which partially offset material cost increases, resulted in an estimated \$1.6 million positive impact to Sun's sales during the quarter.

Changes in exchange rates had a negative impact on Sun's first quarter sales of \$1.0 million compared to the prior-year period. Since the acquisition of Faster in April 2018, the euro declined in value to the dollar resulting in an unfavorable impact on Faster sales of \$1.9 million during the period. Since the acquisition of Custom Fluidpower in August 2018, the Australian dollar declined in value to the U.S. dollar resulting in an unfavorable impact on Custom Fluidpower sales of \$0.5 million during the period.

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

	Three months ended			
	March 30, 2019	March 31, 2018	\$ Change	% Change
Americas	\$ 41.6	\$ 26.3	\$ 15.3	58.2 %
Europe/Middle East/Africa	41.8	19.6	22.2	113.3 %
Asia/Pacific	33.1	16.7	16.4	98.2 %
<b>Total</b>	<b>\$ 116.5</b>	<b>\$ 62.6</b>		

During the first quarter, Faster and Custom Fluidpower contributed \$11.6 million, \$21.7 million and \$15.7 million to our sales in the Americas, Europe, the Middle East and Africa ("EMEA") and Asia/Pacific regions, respectively.

Demand continued to be strong in the Americas region with organic sales increasing \$3.7 million, 14.0%, in the first quarter of 2019. Organic sales to the EMEA region increased \$0.5 million, 2.5%, in the first quarter of 2019. Exchange rates had a negative impact on organic sales to EMEA in the first quarter of 2019 of \$0.7 million. Organic sales to the Asia/Pacific region were up \$0.7 million, 4.1%, in the first quarter of 2019. Exchange rates had a negative impact on organic sales to Asia/Pacific in the first quarter of 2019 of \$0.3 million.

First quarter gross profit grew \$19.2 million, 82.1%, compared to the first quarter of the prior year. Faster and Custom Fluidpower contributed \$17.6 million of the increase representing a 35.9% gross profit margin. While Faster contributed a strong gross margin for the period, Custom Fluidpower earned a lower gross margin due to the nature of their value-add integrator business model. Organic gross profit increased \$1.6 million over the first quarter of 2018, while organic gross profit margin declined 0.4 percentage points to 37.0%, from 37.4% in the prior-year period. Increased sales volume and price increases, net of increased material costs, positively impacted the gross profit of our organic business by approximately \$0.7 million and \$0.4 million during the quarter, respectively. Sun's CVT manufacturing consolidation project disrupted productivity during the early part of the quarter; however, efficiencies were realized as the quarter progressed.

First quarter operating income increased \$10.4 million, 77.6%, compared to the first quarter of the prior year. Faster and Custom Fluidpower contributed \$9.4 million of the increase, representing a 19.2% operating margin for the quarter. The operating margin of our organic business remained relatively flat compared to the prior-year period at 21.3%.

Selling, engineering and administrative expenses (“SEA”) rose \$8.8 million in the first quarter of 2019 compared to the first quarter of the prior year. Faster and Custom Fluidpower SEA costs totaled \$8.2 million during the quarter. The SEA costs of our organic business increased \$0.6 million over the prior-year quarter while SEA as a percent of sales declined 0.3 percentage points primarily due to leverage of fixed costs on higher sales.

## **Electronics**

The following table sets forth the results of operations for the Electronics segment (in millions):

	Three months ended		\$ Change	% Change
	March 30, 2019	March 31, 2018		
Net sales	\$ 30.4	\$ 34.7	\$ (4.3)	(12.4)%
Gross profit	\$ 13.9	\$ 14.2	\$ (0.3)	(2.1)%
Gross profit %	45.7 %	40.9 %		
Operating income	\$ 6.5	\$ 7.1	\$ (0.6)	(8.5)%
Operating income %	21.4 %	20.5 %		

First quarter net sales for the Electronics segment totaled \$30.4 million, a decrease of \$4.3 million, 12.4%, from the prior-year period. The decline was due to timing of OEM customer model year rollouts and some softening end market conditions. Price increases positively impacted sales by approximately \$0.5 million for the quarter. Changes in exchange rates had a negative impact on first quarter sales of \$0.3 million.

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

	Three months ended		\$ Change	% Change
	March 30, 2019	March 31, 2018		
Americas	\$ 26.1	\$ 30.1	\$ (4.0)	(13.3)%
Europe/Middle East/Africa	2.5	2.7	(0.2)	(7.4)%
Asia/Pacific	1.8	1.9	(0.1)	(5.3)%
<b>Total</b>	<b>\$ 30.4</b>	<b>\$ 34.7</b>		

Sales to the Americas decreased \$4.0 million, 13.3%, while sales to EMEA and Asia/Pacific remained relatively flat during the first quarter of 2019, excluding currency fluctuations. Exchange rates had a negative impact on sales to EMEA and Asia/Pacific of \$0.2 million and \$0.1 million during the first quarter, respectively.

First quarter gross profit decreased \$0.3 million, 2.1%, compared to the first quarter of the prior year, while gross profit margin expanded 4.8 percentage points to 45.7% from 40.9% in 2018. The improvement in margin was primarily due to material cost reductions, price increases and cost management efforts which resulted in production efficiencies.

First quarter operating income decreased \$0.6 million, 8.5%, over the first quarter of the prior year while operating margin increased 0.9 percentage points to 21.4% from 20.5%. The operating margin increase resulted primarily from the increase in gross profit margin partially offset by an increase in research and development costs incurred to support future product development. SEA expenses grew \$0.3 million, 4.2%, to \$7.4 million in the first quarter of 2019, compared to \$7.1 million in the first quarter of the prior year.

## **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 three months ended March 30, 2019, these costs totaled \$4.4 million primarily for amortization of acquisition-related intangible assets. Corporate and other costs increased \$1.1 million over the prior year period as a result of the acquisitions of Faster and Custom Fluidpower.

### **Interest Expense, net**

Due to the Faster and Custom Fluidpower acquisitions, net interest expense was \$4.4 million for the first quarter of 2019 compared to \$0.5 million for the prior-year quarter. For the same reason, average net debt for the first quarter of 2019 was \$325.3 million compared to average cash on hand during the first quarter of 2018 of \$131.2 million.

### **Change in Fair Value of Contingent Consideration**

The fair value of our acquisition-related contingent consideration liability is revalued each quarter to its estimated fair value, and changes are recorded in earnings of the period. During the first quarter of 2019 the fair value of the liability increased by \$0.7 million compared to an increase of \$0.4 million in the first quarter of 2018.

### **Income Taxes**

The provision for income taxes for the first quarter of 2019 was 22.1% of pretax income compared to 25.1% for the prior-year first quarter. 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. In addition, the decrease in the first quarter 2019 effective tax rate versus the first quarter 2018 effective tax rate was primarily related an increase in the Foreign Derived Intangible Income (FDII) deduction.

## **LIQUIDITY AND CAPITAL RESOURCES**

Historically, our primary source of capital has been cash generated from operations. In recent years, we have used borrowings on our credit facilities to fund acquisitions, and during 2018 we raised \$240 million in net proceeds from our public stock offering which was also used to fund acquisition activity during 2018. During the first quarter of 2019, cash provided by operating activities totaled \$19.8 million and as of March 30, 2019, we had \$16.7 million of cash and cash equivalents on hand and \$157.4 million of available credit on our revolving credit facility. We also have a \$200 million accordion feature available on our credit facility, subject to certain pro forma compliance requirements.

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

We believe that cash generated from operations and our borrowing availability under our credit facilities will be sufficient to satisfy our operating expenses and capital expenditures for the foreseeable future. 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 borrowing. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations. Additional operating expense reductions also could be made. Finally, the dividend to shareholders could be reduced or suspended.

### *Cash Flows*

The following table summarizes our cash flows for the periods (in millions):

	Three months ended		\$ Change
	March 30, 2019	March 31, 2018	
Net cash provided by operating activities	\$ 19.8	\$ 14.7	\$ 5.1
Net cash used in investing activities	(8.7)	(4.2)	(4.5)
Net cash (used in) provided by financing activities	(17.7)	122.4	(140.1)
Effect of exchange rates on cash	(0.2)	1.8	(2.0)
Net (decrease) increase in cash	<u>\$ (6.8)</u>	<u>\$ 134.7</u>	<u>\$ (141.5)</u>

Cash on hand declined \$6.8 million from \$23.5 million at the end of 2018 to \$16.7 million at March 30, 2019. 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 also paying down borrowings on our credit facilities. Cash and cash equivalents were unfavorably impacted by changes in exchange rates during the three months ended March 30, 2019 by \$0.2 million.

### *Operating activities*

Cash from operations increased \$5.1 million, 34.7%, compared to the prior-year period, a result of improved cash earnings partially offset by a net increase in operating assets and liabilities. Changes in inventory and accounts receivable reduced cash by \$12.6 million and \$8.7 million during the first quarter of 2019 and 2018, respectively. Days sales outstanding went up to 50 days as of March 30, 2019, from 44 days as of March 31, 2018, primarily due to Faster's and Custom Fluidpower's collection periods which exceed that of our historical business, due to their different business models. For similar reasons, days of inventory on hand went up to 88 as of March 30, 2019, from 63 as of March 31, 2018, due to Faster's and Custom Fluidpower's business model differences.

### *Investing activities*

Capital expenditures totaled \$8.8 million for the three months ended March 30, 2019, an increase of \$4.6 million over the prior year period, primarily made up of purchases of machinery and equipment, Sun's manufacturing consolidation project, and equipment and leasehold improvements for our new China facility. Capital expenditures for the full year 2019 are estimated to be between \$30 million and \$35 million for investments in machinery and equipment, the completion of Sun's CVT manufacturing consolidation project, construction of a state-of-the-art engineering center for our CVT business, and expansion of our China operations.

### *Financing activities*

Cash flows used in financing activities totaled \$17.7 million in the first quarter of 2019, compared to cash provided by financing activities of \$122.4 in the prior year period.

On February 6, 2018, the Company issued and sold 4.4 million shares of its common stock at \$57.50 per share in a registered public offering. The net increase to shareholders' equity and cash proceeds from the offering was approximately \$240 million. We initially used \$116 million of the proceeds to repay the outstanding debt under our credit facility and used the remaining proceeds in April of 2018 to fund the Faster acquisition.

On April 1, 2018, we amended our credit facility to increase the limit on our revolving credit facility to \$400 million and add a term loan of \$100 million. We also increased the accordion feature to \$200 million. During the second quarter of 2018, we paid cash of approximately \$175.0 million and borrowed \$358.0 million on our term loan and line of credit to complete the acquisition of Faster. During the third quarter of 2018, we borrowed additional amounts on our revolving credit facility to fund the acquisition of Custom Fluidpower. Cash paid for the Custom Fluidpower acquisition totaled approximately \$9.3 million. Amounts due on our revolving credit facility and our long-term non-revolving debt as of March 30, 2019 totaled \$242.6 million and \$96.4 million, respectively.

In April 2019, we paid \$17.8 million to the former owners of Enovation Controls in connection with the third and final payment due on the contingent consideration liability.

During the first quarter of 2019, we declared a quarterly cash dividend of \$0.09 per share payable on April 20, 2019, to shareholders of record as of April 5, 2019. 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*

The impact of inflation on our operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economies in which we operate. While inflation has not had, and we do not expect that it will have, a material impact upon operating results, there is no assurance that our business will not be affected by inflation in the future.

### ***Critical Accounting Policies and Estimates***

We currently apply judgment and estimates which 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 Annual Report on Form 10-K for the year ended December 29, 2018, and any changes made during the first three months of 2019, including the adoption of ASC 842, are disclosed in Note 2 to the Financial Statements.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See “Item 7A – Quantitative and Qualitative Disclosures about Market Risk” in our 2018 Annual Report on Form 10-K filed on February 26, 2019. There were no material changes during the three months ended March 30, 2019.

### **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.

For information regarding risk factors, please refer to Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 29, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1	<a href="#"><u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>CEO Certification pursuant to 18 U.S.C. § 1350.</u></a>
32.2	<a href="#"><u>CFO Certification pursuant to 18 U.S.C. § 1350.</u></a>
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



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Sarasota, State of Florida on May 7, 2019.

SUN HYDRAULICS CORPORATION

By: /s/ Tricia L. Fulton  
Tricia L. Fulton  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Wolfgang H. Dangel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 30, 2019, of Sun Hydraulics Corporation;
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: May 7, 2019

/s/ Wolfgang H. Dangel

Wolfgang H. Dangel  
President, Chief Executive Officer

## CERTIFICATION

I, Tricia L. Fulton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 30, 2019, of Sun Hydraulics Corporation;
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: May 7, 2019

/s/ Tricia L. Fulton

Tricia L. Fulton

Chief Financial Officer

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

I, Wolfgang H. Dangel, the Chief Executive Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 30, 2019 (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.

/s/ Wolfgang H. Dangel

Chief Executive Officer

May 7, 2019

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

I, Tricia L. Fulton, the Chief Financial Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 30, 2019 (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.

/s/ Tricia L. Fulton  
Chief Financial Officer  
May 7, 2019

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