

GENERAC HOLDINGS INC.  
Form 10-Q  
May 07, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2018**

**OR**

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

**For the transition period from      to**

**Commission File Number 001-34627**

**GENERAC HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-5654756**  
(IRS Employer  
Identification No.)

**S45 W29290 Hwy 59, Waukesha, WI 53189**

(Address of principal executive offices) (Zip Code)

**(262) 544-4811**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

As of April 30, 2018, there were 61,953,296 shares of registrant's common stock outstanding.



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Generac Holdings Inc.

Condensed Consolidated Balance Sheets

*(U.S. Dollars in Thousands, Except Share and Per Share Data)*

(Unaudited)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 146,162	\$ 138,472
Accounts receivable, less allowance for doubtful accounts	262,170	279,294
Inventories	439,745	387,049
Prepaid expenses and other assets	18,768	19,741
Total current assets	866,845	824,556
Property and equipment, net	232,023	230,380
Customer lists, net	39,516	41,064
Patents, net	37,310	39,617
Other intangible assets, net	2,302	2,401
Tradenames, net	151,972	152,683
Goodwill	724,206	721,523
Deferred income taxes	3,466	3,238
Other assets	19,828	10,502
Total assets	\$ 2,077,468	\$ 2,025,964
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Short-term borrowings	\$ 31,414	\$ 20,602
Accounts payable	228,070	233,639
Accrued wages and employee benefits	29,014	27,992
Other accrued liabilities	122,546	112,618
Current portion of long-term borrowings and capital lease obligations	1,593	1,572

Total current liabilities	412,637	396,423
Long-term borrowings and capital lease obligations	907,459	906,548
Deferred income taxes	49,140	41,852
Other long-term liabilities	83,634	82,893
Total liabilities	1,452,870	1,427,716
Redeemable noncontrolling interests	54,404	43,929
Stockholders' equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized, 70,989,164 and 70,820,173 shares issued at March 31, 2018 and December 31, 2017, respectively	707	708
Additional paid-in capital	464,060	459,816
Treasury stock, at cost	(321,025 )	(294,005 )
Excess purchase price over predecessor basis	(202,116 )	(202,116 )
Retained earnings	636,814	610,835
Accumulated other comprehensive loss	(8,372 )	(21,198 )
Stockholders' equity attributable to Generac Holdings, Inc.	570,068	554,040
Noncontrolling interests	126	279
Total stockholders' equity	570,194	554,319
Total liabilities and stockholders' equity	\$2,077,468	\$2,025,964

*See notes to consolidated financial statements.*

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Generac Holdings Inc.

Condensed Consolidated Statements of Comprehensive Income

*(U.S. Dollars in Thousands, Except Share and Per Share Data)*

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net sales	\$397,634	\$330,485
Costs of goods sold	257,645	221,685
Gross profit	139,989	108,800
Operating expenses:		
Selling and service	42,682	39,467
Research and development	11,853	10,287
General and administrative	23,475	20,973
Amortization of intangibles	5,632	7,183
Total operating expenses	83,642	77,910
Income from operations	56,347	30,890
Other (expense) income:		
Interest expense	(10,113 )	(10,788 )
Investment income	346	5
Costs related to acquisition	(11 )	(185 )
Other, net	(1,383 )	83
Total other expense, net	(11,161 )	(10,885 )
Income before provision for income taxes	45,186	20,005
Provision for income taxes	11,416	7,823
Net income	33,770	12,182
Net income attributable to noncontrolling interests	125	7
Net income attributable to Generac Holdings Inc.	\$33,645	\$12,175
Net income attributable to Generac Holdings Inc. per common share - basic:	\$0.42	\$0.21
Weighted average common shares outstanding - basic:	61,943,495	62,366,263
Net income attributable to Generac Holdings Inc. per common share - diluted:	\$0.42	\$0.20
Weighted average common shares outstanding - diluted:	62,474,936	62,936,126
Comprehensive income attributable to Generac Holdings Inc.	\$44,703	\$15,720

*See notes to consolidated financial statements.*

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Generac Holdings Inc.

Condensed Consolidated Statements of Cash Flows

*(U.S. Dollars in Thousands)*

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net income	\$33,770	\$12,182
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	6,051	5,414
Amortization of intangible assets	5,632	7,183
Amortization of original issue discount and deferred financing costs	1,177	490
Deferred income taxes	4,283	6,530
Share-based compensation expense	3,106	2,632
Other	102	120
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	18,744	20,368
Inventories	(48,798 )	(35,675 )
Other assets	2,658	192
Accounts payable	(9,439 )	(24,975 )
Accrued wages and employee benefits	813	697
Other accrued liabilities	11,065	103
Excess tax benefits from equity awards	(196 )	(436 )
Net cash provided by (used in) operating activities	28,968	(5,175 )
<b>Investing activities</b>		
Proceeds from sale of property and equipment	1	35
Proceeds from beneficial interests in securitization transactions	867	629
Expenditures for property and equipment	(6,496 )	(3,548 )
Acquisition of business, net of cash acquired	(369 )	1,610
Net cash used in investing activities	(5,997 )	(1,274 )
<b>Financing activities</b>		
Proceeds from short-term borrowings	14,315	31,004
Proceeds from long-term borrowings	–	1,278
Repayments of short-term borrowings	(3,911 )	(35,194 )
Repayments of long-term borrowings and capital lease obligations	(408 )	(1,056 )
Stock repurchases	(25,656 )	–
Cash dividends paid to noncontrolling interest of subsidiary	(314 )	–

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Taxes paid related to equity awards	(1,626 )	(1,903 )
Proceeds from exercise of stock options	1,400	1,107
Net cash used in financing activities	(16,200 )	(4,764 )
Effect of exchange rate changes on cash and cash equivalents	919	1,435
Net increase (decrease) in cash and cash equivalents	7,690	(9,778 )
Cash and cash equivalents at beginning of period	138,472	67,272
Cash and cash equivalents at end of period	\$146,162	\$57,494

*See notes to consolidated financial statements*

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**Generac Holdings Inc.**  
**Notes to Condensed Consolidated Financial Statements**

*(U.S. Dollars in Thousands, Except Share and Per Share Data)*

**(Unaudited)**

**1. Description of Business and Basis of Presentation**

Founded in 1959, Generac Holdings Inc. (the Company) is a leading global designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light-commercial and industrial markets. Generac's power products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of the Annual Report on Form 10-K for the year ended *December 31, 2017*). A summary of acquisitions affecting the reporting periods presented include:

In *January 2017*, the Company acquired Motortech GmbH (Motortech), headquartered in Celle, Germany. Motortech is a leading manufacturer of gaseous-engine control systems and accessories, which are sold primarily to European gas-engine manufacturers and to aftermarket customers.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All intercompany amounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of *March 31, 2018*, the condensed consolidated statements of comprehensive income for the *three* months ended *March 31, 2018* and *2017*, and the condensed consolidated statements of cash flows for the *three* months ended *March 31, 2018* and *2017* have been prepared by the Company and have *not* been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, results of operation and cash flows, have been made. The results of operations for any interim period are *not* necessarily indicative of the results to be expected for the full year.

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended *December 31, 2017*.

### ***New Accounting Standards Not Yet Adopted***

In *February 2016*, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) *2016-02, Leases*. This guidance is being issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. The guidance should be applied using a modified retrospective approach and is effective for the Company in *2019*, with early adoption permitted. The Company is currently assessing the impact the adoption of this guidance will have on the Company's results of operations and financial position.

In *August 2017*, the FASB issued ASU *2017-12, Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities*. This guidance was issued to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements, and to make certain targeted improvements to simplify the application of the hedge accounting guidance. The standard is effective for the Company in *2019*, with early adoption permitted. The Company is currently assessing the impact the adoption of this guidance will have on the Company's results of operations and financial position.

There are several other new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does *not* believe any of these accounting pronouncements has had or will have a material impact on the Company's consolidated financial statements.

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On January 1, 2018, the Company adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new standard requires presentation of certain components of net periodic pension cost as non-operating expense. The new standard did *not* have a significant impact on the Company's financial statements. The changes in presentation of the components of net periodic pension cost were applied retrospectively to all periods presented.

On January 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The changes in presentation of the proceeds from beneficial interests in securitization transactions were applied retrospectively to all periods presented.

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all related amendments (the "new revenue recognition standard") using the full retrospective method, which requires application to all periods presented.

The impact of adopting the above standards on the Company's previously reported condensed consolidated financial statements is as follows:

<b><i>Condensed Consolidated Balance Sheet</i></b>	<b>March 31, 2017</b>		
	<b>As Reported</b>	<b>Impact of Adoption</b>	<b>As Adjusted</b>
Accounts Receivable	\$223,031	\$ (2,484 )	\$ 220,547
Inventories	390,908	6,082	396,990
Other accrued liabilities	91,853	5,604	97,457
Deferred income taxes	27,376	(2,954 )	24,422
Other long-term liabilities	62,129	5,548	67,677
Retained earnings	\$		