

GENERAC HOLDINGS INC.
Form 10-K
February 26, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark
One)

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

For the fiscal year ended December 31, 2017

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

(Address of principal executive offices)

53189

(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Common Stock, \$0.01 par value

(Title of class)

New York Stock Exchange

(Name of exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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)
Emerging
growth
company
Smaller reporting 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 Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2,189,264,580 based upon the closing price reported for such date on the New York Stock Exchange.

As of February 16, 2018, 62,325,716 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2017 furnished to the Securities and Exchange Commission are incorporated by reference into Part II of this Form 10-K. Portions of the registrant's Proxy Statement for the 2018 Annual Meeting of Stockholders (the "2018 Proxy Statement"), which will be filed by the registrant on or prior to 120 days following the end of the registrant's fiscal year ended December 31, 2017, are incorporated by reference into Part III of this Form 10-K.

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2017 FORM 10-K ANNUAL REPORT

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Forward-Looking Statements

This annual report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “forecast,” “project,” “plan,” “intend,” “believe,” “confident,” “may,” “should,” “can have,” “likely,” “future,” “optimal” and words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

The forward-looking statements contained in this annual report are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. The forward-looking statements contained in this annual report include estimates regarding:

our business, financial and operating results, and future economic performance;
proposed new product and service offerings; and
management's goals, expectations and objectives and other similar expressions concerning matters that are not historical facts.

Factors that could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements include:

frequency and duration of power outages impacting demand for our products;
availability, cost and quality of raw materials and key components used in producing our products;
the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities and product mix;
the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
the risk that our acquisitions will not be integrated successfully;
difficulties we may encounter as our business expands globally;
our dependence on our distribution network;
our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
loss of our key management and employees;

increase in product and other liability claims or recalls; and changes in environmental, health and safety laws and regulations.

Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual results may vary in material respects from those projected in any forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in Item 1A of this Annual Report on Form 10-K. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

PART I

Item 1. Business

Founded in 1959, Generac Holdings Inc. (the Company or Generac) 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. Power generation is our primary focus, which differentiates us from our main competitors that also have broad operations outside of the power equipment market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment market in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the marketplace, including residential, commercial and industrial standby generators; as well as portable and mobile generators used in a variety of applications. Other engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters and pumps used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

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We design, manufacture, source and modify engines, alternators, transfer switches and other components necessary for our products, which are fueled by natural gas, liquid propane, gasoline, diesel and Bi-Fuel™. Our products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies under a variety of brand names. We also sell direct to certain national and regional account customers, as well as to individual consumers, that are the end users of our products.

We have a significant market share in the residential and light commercial markets for automatic standby generators, which we believe remain under-penetrated in the marketplace. We also have a leading market position for portable generators used in residential, light construction and recreational applications. We believe that our leading market position is largely attributable to our strategy of providing a broad product line of high-quality, innovative and affordable products through our extensive and multi-layered distribution network to whom we offer comprehensive support and programs from the factory. In addition, we are a leading provider of light towers, mobile generators, flameless heaters, outdoor power equipment and industrial diesel generators ranging in sizes up to 3,250kW.

Over the years, we have executed a number of acquisitions that support our strategic plan. A summary of the recent acquisitions can be found in Note 1, “Description of Business,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Reportable Segments

The Company has two reportable segments for financial reporting purposes – Domestic and International. The Domestic segment includes the legacy Generac business and the impact of acquisitions that are based in the United States, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light, Pramac and Motortech acquisitions, all of which have revenues that are substantially derived from outside the U.S. and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other engine powered products, which are discussed in further detail below in the context of our product classes. Refer to Note 6, “Segment Reporting,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information.

Products

We design and manufacture stationary, portable and mobile generators with single-engine outputs ranging between 800W and 3,250kW. We have the ability to expand the power range for certain stationary generator solutions to much larger multi-megawatt systems through an integrated paralleling configuration called Modular Power Systems (MPS). Other engine powered products that we design and manufacture include light towers, mobile heaters, power washers and water pumps, along with a broad line of outdoor power equipment. We classify our products into three categories

based on similar range of power output geared for varying end customer uses: Residential products, Commercial & Industrial (C&I) products and Other products. The following summary outlines our portfolio of products, including their key attributes and customer applications.

Residential Products

Our residential automatic standby generators range in output from 6kW to 60kW, with manufacturer's suggested retail prices (MSRPs) from approximately \$1,949 to \$16,199. These products operate on natural gas, liquid propane or diesel and are permanently installed with an automatic transfer switch, which we also manufacture. Air-cooled engine residential standby generators range in outputs from 6kW to 22kW, are available in steel and aluminum enclosures and serve as an emergency backup for small to medium-sized homes. Liquid-cooled engine generators serve as emergency backup for larger homes and small businesses and range in output from 22kW to 60kW. We also provide a cellular-based remote monitoring system for home standby generators called *Mobile Link*[™], which allows our customers to check the status of their generator conveniently from a desktop PC, tablet computer or smartphone, and also provides the capability to receive maintenance and service alerts.

We provide a broad product line of portable and inverter generators that are fueled predominantly by gasoline, with certain models running on propane and diesel fuel, which range in size from 800W to 17.5kW. These products serve as an emergency home backup source of electricity and are also used for construction and recreational purposes. Our portable generators are targeted at homeowners, with price points ranging between the consumer value end of the market through the premium homeowner market; at professional contractors, starting at the value end through the premium contractor segment; and at the recreational market with our inverter product line. In addition, we offer manual transfer switches to supplement our portable generator product offering.

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We provide a broad product line of engine driven power washers for residential and commercial use, fueled by gasoline, which range in pressure from 2,500 to 4,200 PSI. Additionally, we offer a product line of water pumps built to meet the water removal needs of homeowners, farmers, construction crews and other end-user applications.

Further, we provide a broad product line of outdoor power equipment that includes trimmer & brush mowers, log splitters, lawn & leaf vacuums, and chipper shredders for the property maintenance needs of larger-acreage residences, commercial properties, municipalities and farms. These products are largely sold in North America through catalogs, on-line, retail hardware stores and outdoor power equipment dealers primarily under the DR® brand name.

Residential products comprised 52.0%, 53.5% and 51.2%, respectively, of total net sales in 2017, 2016 and 2015.

Commercial & Industrial Products

We offer a full line of C&I generators fueled by diesel, natural gas, liquid propane and Bi-Fuel™. We believe we have one of the broadest product offerings in the industry with power outputs ranging from 10kW up to 3,250kW.

Our light-commercial standby generators include a full range of affordable systems from 22kW to 150kW and related transfer switches, providing three-phase power sufficient for most small and mid-sized businesses such as grocery stores, convenience stores, restaurants, gas stations, pharmacies, retail banks, small health care facilities and other small-footprint retail applications. Our light-commercial generators run on natural gas, liquid propane and diesel fuel.

We manufacture a broad product line of standard and configured stationary generators and related transfer switches for various industrial standby, continuous-duty and prime rated applications. Our single-engine industrial generators range in output from 10kW up to 3,250kW, which includes stationary and containerized packages, with our MPS technology extending our product range up to much larger multi-megawatt systems through an integrated paralleling configuration. We offer four fuel options for our industrial generators, including diesel, natural gas, liquid propane or Bi-Fuel™. Bi-Fuel™ generators operate on a combination of both diesel and natural gas to allow our customers the advantage of multiple fuel sources and extended run times. Our industrial standby generators are primarily used as emergency backup for larger applications in the healthcare, telecom, datacom, commercial office, municipal and manufacturing markets.

Our MPS technology combines the power of several smaller generators to produce the output of a larger generator, providing our customers with redundancy and scalability in a cost-effective manner. For larger industrial applications, our MPS products offer customers an efficient, affordable way to scale their standby power needs, and also offers

superior reliability given its built-in redundancy which allows individual units to be taken off-line for routine maintenance while retaining coverage for critical circuits.

We provide a broad product line of light towers, mobile generators and mobile heaters, which provide temporary lighting, power and heat for various end markets, such as road and commercial construction, energy, mining, military and special events. We also manufacture commercial mobile pumps which utilize wet and dry-priming pump systems for a wide variety of wastewater applications.

The acquisition of Motortech in January 2017 added gaseous-engine control systems and accessories which are sold primarily to European gas-engine manufacturers and to aftermarket customers.

C&I products comprised 41.0%, 38.6% and 41.6% respectively, of total net sales in 2017, 2016 and 2015.

Other Products

Our “Other Products” category includes aftermarket service parts to our dealers, product accessories and proprietary engines to third-party original equipment manufacturers (OEMs).

Other products comprised 7.0%, 7.9% and 7.2%, respectively, of total net sales in 2017, 2016 and 2015.

Distribution Channels and Customers

We distribute our products through a variety of different distribution channels to increase awareness of our product categories and brands, and to ensure our products reach a broad customer base. This distribution network includes independent residential dealers, industrial distributors and dealers, national and regional retailers, e-commerce merchants, electrical and HVAC wholesalers (including certain private label arrangements), catalogs, equipment rental companies and equipment distributors. We also sell direct to certain national and regional account customers, as well as to individual consumers, who are the end users of our products.

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We believe our distribution network is a competitive advantage that has strengthened over the years as a result of adding, expanding and developing the various distribution channels through which we sell our products. We offer a broad set of tools, programs and factory support to help our distribution partners be successful. Our network is well balanced with no customer providing more than 6% of our sales in 2017.

Our overall dealer network located in the United States, Canada and Latin America, is the industry's largest network of factory direct independent generator contractors in North America. We expanded our dealer network in recent years on a global basis with the acquisition of Pramac in March 2016, particularly in Europe, the Middle East and Asia/Pacific regions.

Our residential/light commercial dealer network sells, installs and services our residential and light commercial products to end users. We have increased our level of investment in recent years by focusing on a variety of initiatives to more effectively market and sell our home standby products and better align our dealer network with Generac.

Our industrial network consists of a combination of primary distributors as well as a support network of dealers serving the United States and Canada. The industrial distributors and dealers provide industrial and commercial end users with ongoing sales and product support. Our industrial distributors and dealers maintain the local relationships with commercial electrical contractors, specifying engineers and national account regional buying offices. Over the past several years, we have been expanding our dealer network globally through acquisitions and organic means, in order to expand our international sales opportunities.

Our retail distribution network includes thousands of locations across the globe and includes a variety of regional and national home improvement chains, retailers, clubs, buying groups and farm supply stores. These physical retail locations are supplemented by a growing presence of e-commerce retailers, along with a number of catalog retailers. This network primarily sells our residential standby, portable and light-commercial generators, as well as our other engine powered tools. The placement of our products at retail locations drives significant awareness for our brands and the automatic home standby product category.

Our wholesaler network distributes our residential and light-commercial generators, and consists of selling branches of both national and local distribution houses for electrical and HVAC products.

On a selective basis, we have established private label and licensing arrangements with third party partners to provide residential, light-commercial and industrial generators. These partners include leading home equipment, electrical equipment and construction machinery companies, each of which provides access to incremental channels of distribution for our products.

The distribution for our mobile products includes international, national, regional and specialty equipment rental companies, equipment distributors and construction companies, which primarily serve non-residential building construction, road construction, energy markets and special events. In addition, international acquisitions over the past several years have provided access to numerous independent distributors in over 150 countries.

We sell direct to certain national and regional account customers that are the end users of our products covering a number of end market verticals, including telecommunication, retail, banking, convenience stores, grocery stores and other light commercial applications. Additionally, our residential products are sold direct to individual consumers, who are the end users of the product.

Business Strategy

We have been executing on our “Powering Ahead” strategic plan, which serves as the framework for the significant investments we have made to capitalize on the long-term growth prospects of Generac. As we continue to move the Powering Ahead plan into the future, we are focused on a number of initiatives that are driven by the same four key objectives:

Growing the residential standby generator market. As the leader in the home standby generator market, it is incumbent upon us to continue to drive growth and increase the penetration rate of these products in households across the United States and Canada. Central to this strategy is to increase the awareness, availability and affordability of home standby generators. Ongoing power outage activity, combined with expanding our residential/light commercial dealer base and overall distribution in affected regions, are key drivers in elevating the awareness of home standby generators over the long term. We intend to continue to supplement these key growth drivers by focusing on a variety of strategic initiatives targeted toward generating more sales leads, improving close rates and reducing the total overall cost of a home standby system. In addition, we intend to continue to focus on innovation in this growing product category and introduce new products into the marketplace. With only approximately 4.0% penetration of the addressable market of homes in the United States (which we define as single-family detached, owner-occupied households with a home value of over \$100,000, as defined by the U.S. Census Bureau's 2015 American Housing Survey for the United States), we believe there are opportunities to further penetrate the residential standby generator market.

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Gaining commercial and industrial market share. Our growth strategy for commercial and industrial power generation products is focused on incremental market share gains. Key to this objective are efforts to leverage our expanding platform of diesel and natural gas offerings by better optimizing our industrial distribution partners' capabilities to market, sell and support these products. Specifically, we continue to pursue certain initiatives to expand our distributors' interactions with engineering firms and electrical contractors responsible for specifying and selecting our products within C&I power generation applications. We are also committed to a number of sales process initiatives and go-to-market strategies to increase market visibility and improve the overall specification rates for our products which should increase quoting activity and close rates for our industrial distributors.

Lead with gas power generation products. We will attempt to gain incremental market share within commercial and industrial markets through our leading position in the growing market for cleaner burning, more cost effective natural gas fueled standby power solutions. While still a smaller portion of the overall C&I market, we believe demand for these products continues to increase at a faster rate than traditional diesel fueled generators as a result of their lower capital investment and operating costs. We also intend to explore new gaseous generator related market opportunities, including increasing our product capabilities for continuous-duty and prime rated applications, by leveraging our deep technical capabilities for gaseous-fueled products, leading position for natural gas standby generators and growing market acceptance for these products. As part of this strategy, we plan to continue to expand our natural gas product offering into larger power nodes to take advantage of the continuing shift from diesel to natural gas generators.

Expanding global presence. We have increased our revenues shipped outside the U.S. and Canada in recent years, with sales outside this region accounting for approximately 22% of our revenues during 2017, as compared to approximately 20% and 10% in 2016 and 2015, respectively. This increase is largely the result of acquisitions made that comprise our International segment – Ottomotores, Tower Light, Pramac and Motortech. These businesses have significantly increased our global presence by adding product, manufacturing and distribution capabilities that serve local markets around the world, and have resulted in us becoming a leading global player in the markets for backup power and mobile power equipment. As we look forward, we intend to leverage our increased international footprint attained from these acquisitions to serve the over \$13 billion annual market for power generation equipment outside the U.S. and Canada. We also intend to improve the profit margins of our International segment by executing on several revenue and cost synergies, and driving organic growth in existing markets with additional investment and focus, including the expanding opportunity for global gaseous-fueled products. We will continue to evaluate other opportunities to expand into additional regions of the world through both organic initiatives and potential acquisitions.

We believe the investments we have made to date, due in part to our Powering Ahead strategy, have helped to capitalize on the macro, secular growth drivers for our business and are an important part of our efforts to diversify and globalize our business. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Drivers and Trends" for additional drivers that influence demand for our products and other trends affecting the markets that we serve.

Manufacturing

We operate numerous manufacturing plants, distribution facilities and inventory warehouses located throughout the world. We maintain inventory warehouses in the United States that accommodate material storage and rapid response requirements of our customers. See “Item 2 – Properties” for additional details regarding the locations and activities of our principal operations.

In recent years, we have added manufacturing capacity through investments in automation, improved utilization and the expansion of our manufacturing footprint through organic means as well as through acquisitions. We believe we have sufficient capacity to achieve our business goals for the near-to-intermediate term.

Research and Development

Our primary focus on power generation equipment and other engine powered products drives technological innovation, specialized engineering and manufacturing competencies. Research and development (R&D) is a core competency and includes a staff of over 350 engineers working on numerous projects. Our total R&D expense was \$42.9 million, \$37.2 million and \$32.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. R&D is conducted at various facilities worldwide, including a recent expansion of our advanced engineering labs at our corporate headquarters and the addition of a Chinese technology center in Suzhou, China. These activities are focused on developing new technologies and product enhancements as well as maintaining product competitiveness by improving manufacturing costs, safety characteristics, reliability and performance while ensuring compliance with regulatory standards. We have over 30 years of experience using natural gas engines and have developed specific expertise with fuel systems and emissions technology. In the residential and light commercial markets, we have developed proprietary engines, cooling packages, controls, fuel systems and emissions systems. We believe that our expertise in engine powered equipment gives us the capability to develop new products that will allow continued diversification in our end markets.

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Intellectual Property

We are committed to research and development, and we rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our patents protect certain features and technologies we have developed for use in our products including fuel systems, air flow, electronics and controls, noise reduction and air-cooled engines. We believe the existence of these patents and trademarks, along with our ongoing processes to register additional patents and trademarks, protect our intellectual property rights and enhance our competitive position. We also use proprietary manufacturing processes that require customized equipment.

Suppliers of Raw Materials

Our primary raw material inputs are steel, copper and aluminum, all of which are purchased from third parties and, in many cases, as part of machined or manufactured components. We have developed an extensive network of reliable suppliers in the United States and internationally. Our Strategic Global Sourcing (SGS) function continuously evaluates the quality and cost structure of our products and assesses the capabilities of our supply chain. Components are sourced accordingly based on this evaluation. Our supplier quality engineers conduct on-site audits of major supply chain partners and help to maintain the reliability of critical sourced components.

Competition

The market for power generation equipment and other engine powered products is competitive. We face competition from a variety of large diversified industrial companies as well as smaller generator manufacturers, along with mobile equipment and engine powered tools providers, both domestic and internationally. However, specifically in the generator market, most of the traditional participants compete on a more specialized basis, focused on specific applications within their larger diversified product mix. We are the only significant market participant with a primary focus on power equipment with a core emphasis on standby, portable and mobile generators with broad capabilities across the residential, light-commercial and industrial markets. We believe that our engineering capabilities and core focus on generators provide us with manufacturing flexibility and enables us to maintain a first-mover advantage over our competition for product innovation. We also believe our broad product offering, diverse distribution model and strong factory support provide additional advantages as well.

A summary of the primary competitors across our main product classes are as follows:

Residential products – Kohler, Briggs & Stratton, Cummins, Honda, Champion, Techtronics International, Husqvarna and Ariens, along with a number of smaller domestic and foreign competitors; certain of which also have broad operations in other manufacturing businesses.

C&I products – Caterpillar, Cummins, Kohler, MTU, Stemac, IGSA, Wacker, MultiQuip, Terex, Doosan, Briggs & Stratton (Allmand), Atlas Copco and Himonisa; certain of which focus on the market for diesel generators as they are also diesel engine manufacturers. Also, we compete against other regional packagers that serve local markets throughout the world.

In a continuously evolving market, we believe our scale and broad capabilities make us well positioned to remain competitive. We compete primarily on the basis of brand reputation, quality, reliability, pricing, innovative features, breadth of product offering, product availability and factory support.

Employees

As of December 31, 2017, we had 4,556 employees (4,017 full time and 539 part-time and temporary employees). Of those, 2,393 employees were directly involved in manufacturing at our manufacturing facilities.

Domestically, we have had an “open shop” bargaining agreement for the past 50 years. The current agreement, which expires October 17, 2021, covers our Waukesha and Eagle, Wisconsin facilities. Additionally, our plants in Mexico, Italy and Brazil are operated under various local or national union groups. Our other facilities are not unionized.

Regulation, including Environmental Matters

As a manufacturing company, our operations are subject to a variety of federal, state, local and foreign laws and regulations covering environmental, health and safety matters. Applicable laws and regulations include those governing, among other things, emissions to air, discharges to water, noise and employee safety, as well as the generation, handling, storage, transportation, treatment, and disposal of waste and other materials. In addition, our products are subject to various laws and regulations relating to, among other things, emissions and fuel requirements, as well as labeling and marketing.

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Our products sold in the United States are regulated by the U.S. Environmental Protection Agency (EPA), California Air Resources Board (CARB) and various other state and local air quality management districts. These governing bodies continue to pass regulations that require us to meet more stringent emission standards, and all of our engines and engine-driven products are regulated within the United States and its territories. In addition, certain products in the United States are subject to safety standards as established by various other standards and rule making bodies, or state and local agencies, including the U.S. Consumer Product Safety Commission (CPSC). Other countries have varying degrees of regulation depending upon product application and fuel types.

Available Information

The Company's principal executive offices are located at S45 W29290 Highway 59, Waukesha, Wisconsin, 53189 and the Company's telephone number is (262) 544-4811. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the "Investors" portion of the Company's web site, www.generac.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission (SEC). The SEC maintains a web site, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC by the Company. The information provided on these websites is not part of this report and is therefore not incorporated herein by reference.

Executive Officers

The following table sets forth information regarding our executive officers:

Name	Age	Position
Aaron P. Jagdfeld	46	President, Chief Executive Officer and Chairman
York A. Ragen	46	Chief Financial Officer
Russell S. Minick	57	Chief Marketing Officer
Jeffrey Mueller	49	President / General Manager – Consumer Power
Erik Wilde	43	Executive Vice President, Industrial, Americas
Roger F. Pascavis	57	Executive Vice President, Strategic Global Sourcing
Patrick Forsythe	50	Executive Vice President, Global Engineering

Aaron P. Jagdfeld has served as our Chief Executive Officer since September 2008, as a director since November 2006 and was named Chairman in February 2016. Prior to becoming Chief Executive Officer, Mr. Jagdfeld worked for Generac for 15 years. He began his career in the finance department in 1994 and became our Chief Financial Officer in 2002. In 2007, he was appointed President and was responsible for sales, marketing, engineering and product development. Prior to joining Generac, Mr. Jagdfeld worked in the audit practice of the Milwaukee,

Wisconsin office of Deloitte and Touche. Mr. Jagdfeld holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

York A. Ragen has served as our Chief Financial Officer since September 2008. Prior to becoming Chief Financial Officer, Mr. Ragen held Director of Finance and Vice President of Finance positions at Generac. Prior to joining Generac in 2005, Mr. Ragen was Vice President, Corporate Controller at APW Ltd., a spin-off from Applied Power Inc., now known as Actuant Corporation. Mr. Ragen began his career in the Audit division of Arthur Andersen's Milwaukee, Wisconsin office. Mr. Ragen holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

Russell S. Minick began serving as our Chief Marketing Officer in August 2016. Prior to this appointment he served as Executive Vice President, Residential Products since October 2011, with this responsibility being expanded in January 2014 to Executive Vice President, Global Residential Products and to Executive Vice President, North America in September 2014. Prior to joining Generac, Mr. Minick was President & CEO of Home Care Products for Electrolux from 2006 to 2011, President of The Gunlocke Company at HNI Corporation from 2003 to 2006, Senior Vice President of Sales, Marketing and Product Development at True Temper Sports from 2002 to 2003, and General Manager of Extended Warranty Operations for Ford Motor Company from 1998 to 2002. Mr. Minick is a graduate of the University of Northern Iowa, and holds a degree in marketing.

Jeffrey Mueller began serving as our President / General Manager – Consumer Power in November 2017. Mr. Mueller was Group President for Broan-Nutone from 2014 prior to joining Generac. Prior to his time at Broan, Mr. Mueller was at Kohler Company from 1991 where he held various U.S. and international executive-level positions in the Kitchen & Bath & Interiors Group, including President of Kohler's faucet business globally. He is a Marquette University alumnus where he earned an Executive MBA with an international focus and a Bachelor of Science degree in Mechanical Engineering.

Erik Wilde began serving as our Executive Vice President, Industrial, Americas in July 2016. Mr. Wilde was Vice President and General Manager of the Mining Division for Komatsu America Corp. from 2013 until he joined Generac. Prior to that role, he held leadership positions as Vice President of the ICT Business Division and Product Marketing back to 2005. Mr. Wilde holds a Bachelor of Business Administration in Management from Boise State University and an M.B.A. from Keller Graduate School of Management.

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Roger Pascavis has served as our Executive Vice President, Strategic Global Sourcing since March 2013. Prior to becoming Executive Vice President of Strategic Global Supply, he served as the Senior Vice President of Operations since January 2008. Mr. Pascavis joined Generac in 1995 and has served as Director of Materials and Vice President of Operations. Prior to joining Generac, Mr. Pascavis was a Plant Manager for MTI in Waukesha, Wisconsin. Mr. Pascavis holds a B.S. in Industrial Technology from the University of Wisconsin-Stout and an M.B.A. from Lake Forest Graduate School of Management.

Patrick Forsythe has served as our Executive Vice President of Global Engineering since re-joining Generac in July 2015. Mr. Forsythe was Vice President, Global Engineering & Technology of Hayward Industries from 2008 to 2015, Vice President, Global Engineering at Ingersoll Rand Company (and the acquired Doosan Infracore International) from 2004 to 2008, and Director of Engineering at Ingersoll Rand Company from 2002 to 2004. Prior to 2002, Mr. Forsythe worked in various engineering management capacities with Generac from 1995 to 2002. Mr. Forsythe holds a Higher National Diploma (HND) in Mechanical Engineering from the University of Ulster (United Kingdom), a B.S. in Mechanical Engineering, and an M.S. in Manufacturing Management & Technology from The Open University (United Kingdom).

Item 1A. Risk Factors

You should carefully consider the following risks. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our common stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by us. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Annual Report.

Risk factors related to our business and industry

Demand for the majority of our products is significantly affected by unpredictable power-outage activity that can lead to substantial variations in, and uncertainties regarding, our financial results from period to period.

Sales of our products are subject to consumer buying patterns, and demand for the majority of our products is affected by power outage events caused by thunderstorms, hurricanes, ice storms, blackouts and other power grid reliability issues. The impact of these outage events on our sales can vary depending on the location, frequency and severity of the outages. Sustained periods without major power disruptions can lead to reduced consumer awareness of the benefits of standby and portable generator products and can result in reduced sales growth rates and excess inventory. There are smaller, more localized power outages that occur frequently that drive a baseline level of demand for

back-up power solutions. The lack of major power-outage events and fluctuations to the baseline levels of power-outage activity are part of managing our business, and these fluctuations could have an adverse effect on our net sales and profits. Despite their unpredictable nature, we believe power disruptions create awareness and accelerate adoption for our home standby products.

Demand for our products is significantly affected by durable goods spending by consumers and businesses, and other macroeconomic conditions.

Our business is affected by general economic conditions, and uncertainty or adverse changes such as the prolonged downturn in U.S. residential investment and the impact of more stringent credit standards could lead to a decline in demand for our products and pressure to reduce our prices. Our sales of light-commercial and industrial generators are affected by conditions in the non-residential construction sector and by the capital investment trends for small and large businesses and municipalities. If these businesses and municipalities cannot access credit markets or do not utilize discretionary funds to purchase our products as a result of the economy or other factors, our business could suffer and our ability to realize benefits from our strategy of increasing sales in the light-commercial and industrial sectors through, among other things, our focus on innovation and product development, including natural gas engine and modular technology, could be adversely affected. In addition, consumer confidence and home remodeling expenditures have a significant impact on sales of our residential products, and prolonged periods of weakness in consumer durable goods spending could have a material impact on our business. Typically, we do not have contracts with our customers which call for committed volume, and we cannot guarantee that our current customers will continue to purchase our products at the same level, if at all. If general economic conditions or consumer confidence were to worsen, or if the non-residential construction sector or rate of capital investments were to decline, our net sales and profits would likely be adversely affected. Additionally, timing of capital spending by our national account customers can vary from quarter-to-quarter based on capital availability and internal capital spending budgets.

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Decreases in the availability and quality, or increases in the cost, of raw materials and key components we use could materially reduce our earnings.

The principal raw materials that we use to produce our products are steel, copper and aluminum. We also source a significant number of component parts from third parties that we utilize to manufacture our products. The prices of those raw materials and components are susceptible to significant fluctuations due to trends in supply and demand, transportation costs, government regulations and tariffs, price controls, economic conditions and other unforeseen circumstances beyond our control. We do not have long-term supply contracts in place to ensure the raw materials and components we use are available in necessary amounts or at fixed prices. If we are unable to mitigate raw material or component price increases through product design improvements, price increases to our customers, manufacturing productivity improvements, or hedging transactions, our profitability could be adversely affected. Also, our ability to continue to obtain quality materials and components is subject to the continued reliability and viability of our suppliers, including in some cases, suppliers who are the sole source of certain important components. If we are unable to obtain adequate, cost efficient or timely deliveries of required raw materials and components, we may be unable to manufacture sufficient quantities of products on a timely basis. This could cause us to lose sales, incur additional costs, delay new product introductions or suffer harm to our reputation.

The industry in which we compete is highly competitive, and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in markets that are highly competitive. Some of our competitors have established brands and are larger in size or are divisions of large diversified companies which have substantially greater financial resources than we do. Some of our competitors may be willing to reduce prices and accept lower margins in order to compete with us. In addition, we could face new competition from large international or domestic companies with established industrial brands that enter our end markets. Demand for our products may also be affected by our ability to respond to changes in design and functionality, to respond to downward pricing pressure, and to provide shorter lead times for our products than our competitors. If we are unable to respond successfully to these competitive pressures, we could lose market share, which could have an adverse impact on our results. For further information, see “Item 1—Business—Competition”.

Our industry is subject to technological change, and our failure to continue developing new and improved products and to bring these products rapidly to market could have an adverse impact on our business.

New products, or refinements and improvements of existing products, may have technical failures, delayed introductions, higher than expected production costs or may not be well accepted by our customers. If we are not able to anticipate, identify, develop and market high quality products in line with technological advancements that respond to changes in customer preferences, demand for our products could decline and our operating results could be adversely affected.

We rely on independent dealers and distribution partners, and the loss of these dealers and distribution partners, or of any of our sales arrangements with significant private label, national, retail or equipment rental customers, would adversely affect our business.

In addition to our direct sales force and manufacturer sales representatives, we depend on the services of independent distributors and dealers to sell our products and provide service and aftermarket support to our end customers. We also rely upon our distribution channels to drive awareness for our product categories and our brands. In addition, we sell our products to end users through private label arrangements with leading home equipment, electrical equipment and construction machinery companies; arrangements with top retailers and equipment rental companies; and our direct national accounts with telecommunications and industrial customers. Our distribution agreements and any contracts we have with large national, retail and other customers are typically not exclusive, and many of the distributors with whom we do business offer competitors' products and services. Impairment of our relationships with our distributors, dealers or large customers, loss of a substantial number of these distributors or dealers or of one or more large customers, or an increase in our distributors' or dealers' sales of our competitors' products to our customers or of our large customers' purchases of our competitors' products could materially reduce our sales and profits. Also, our ability to successfully realize our growth strategy is dependent in part on our ability to identify, attract and retain new distributors at all layers of our distribution platform, and we cannot be certain that we will be successful in these efforts. For further information, see "Item 1—Business—Distribution Channels and Customers".

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Our business could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.

We consider our intellectual property rights to be important assets, and seek to protect them through a combination of patent, trademark, copyright and trade secret laws, as well as licensing and confidentiality agreements. These protections may not be adequate to prevent third parties from using our intellectual property without our authorization, breaching any confidentiality agreements with us, copying or reverse engineering our products, or developing and marketing products that are substantially equivalent to or superior to our own. The unauthorized use of our intellectual property by others could reduce our competitive advantage and harm our business. Not only are intellectual property-related proceedings burdensome and costly, but they could span years to resolve and we might not ultimately prevail. We cannot guarantee that any patents, issued or pending, will provide us with any competitive advantage or will not be challenged by third parties. Moreover, the expiration of our patents may lead to increased competition with respect to certain products.

In addition, we cannot be certain that we do not or will not infringe third parties' intellectual property rights. Any such claim, even if it is without merit, may be expensive and time-consuming to defend, subject us to damages, cause us to cease making, using or selling certain products that incorporate the disputed intellectual property, require us to redesign our products, divert management time and attention, and/or require us to enter into costly royalty or licensing arrangements.

Our operations are subject to various environmental, health and safety laws and regulations, and non-compliance with or liabilities under such laws and regulations could result in substantial costs, fines, sanctions and claims.

Our operations are subject to a variety of foreign, federal, state and local environmental, health and safety laws and regulations including those governing, among other things, emissions to air; discharges to water; noise; and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. In addition, under federal and state environmental laws, we could be required to investigate, remediate and/or monitor the effects of the release or disposal of materials both at sites associated with past and present operations and at third-party sites where wastes generated by our operations were disposed. This liability may be imposed retroactively and whether or not we caused, or had any knowledge of, the existence of these materials and may result in our paying more than our fair share of the related costs. We could also be subject to a recall action by regulatory authorities. Violations of or liabilities under such laws and regulations could result in substantial costs, fines and civil or criminal proceedings or personal injury and workers' compensation claims.

Our products are subject to substantial government regulation.

Our products are subject to extensive statutory and regulatory requirements governing, among other things, emissions and noise, including standards imposed by the EPA, CARB and other regulatory agencies around the world. These laws are constantly evolving and many are becoming increasingly stringent. Changes in applicable laws or regulations, or in the enforcement thereof, could require us to redesign our products and could adversely affect our business or financial condition in the future. Developing and marketing products to meet such new requirements could result in substantial additional costs that may be difficult to recover in some markets. In some cases, we may be required to modify our products or develop new products to comply with new regulations, particularly those relating to air emissions and carbon monoxide. Typically, additional costs associated with significant compliance modifications are passed on to the market. While we have been able to meet previous deadlines and requirements, failure to comply with other existing and future regulatory standards could adversely affect our position in the markets we serve.

We may incur costs and liabilities as a result of product liability claims.

We face a risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in injury or other damage. Although we currently maintain product liability insurance coverage, we may not be able to obtain such insurance on acceptable terms in the future, if at all, or obtain insurance that will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. A significant unsuccessful product liability defense could have a material adverse effect on our financial condition and results of operations. In addition, we believe our business depends on the strong brand reputation we have developed. If our reputation is damaged, we may face difficulty in maintaining our market share and pricing with respect to some of our products, which could reduce our sales and profitability.

The loss of any key members of our senior management team or key employees could disrupt our operations and harm our business.

Our success depends, in part, on the efforts of certain key individuals, including the members of our senior management team, who have significant experience in the power products industry. If, for any reason, our senior executives do not continue to be active in management, or if our key employees leave our company, our business, financial condition or results of operations could be adversely affected. Failure to continue to attract these individuals at reasonable compensation levels could have a material adverse effect on our business, liquidity and results of operations. Although we do not anticipate that we will have to replace any of these individuals in the near future, the loss of the services of any of our key employees could disrupt our operations and have a material adverse effect on our business.

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Disruptions caused by labor disputes or organized labor activities could harm our business.

We may from time to time experience union organizing activities in our non-union facilities. Disputes with the current labor union or new union organizing activities could lead to work slowdowns or stoppages and make it difficult or impossible for us to meet scheduled delivery times for product shipments to our customers, which could result in loss of business. In addition, union activity could result in higher labor costs, which could harm our financial condition, results of operations and competitive position. A work stoppage or limitations on production at our facilities for any reason could have an adverse effect on our business, results of operations and financial condition. In addition, many of our suppliers have unionized work forces. Strikes or work stoppages experienced by our customers or suppliers could have an adverse effect on our business, results of operations and financial condition.

We may experience material disruptions to our manufacturing operations.

While we seek to operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities, a material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial results. Any of our manufacturing facilities, or any of our equipment within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

equipment or information technology infrastructure failure;
disruptions in the transportation infrastructure including roads, bridges, railroad tracks and container ports;
fires, floods, tornados, earthquakes, or other catastrophes; and
other operational problems.

In addition, a significant portion of our manufacturing and production facilities are located in Wisconsin within a 100-mile radius of each other. We could experience prolonged periods of reduced production due to unforeseen events occurring in or around our manufacturing facilities in Wisconsin. In the event of a business interruption at our facilities, in particular our Wisconsin facilities, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations.

A significant portion of our purchased components are sourced in foreign countries, exposing us to additional risks that may not exist in the United States.

We source a significant portion of our purchased components overseas, primarily in Asia and Europe. Our international sourcing subjects us to a number of potential risks in addition to the risks associated with third-party sourcing generally. Such risks include:

- inflation or changes in political and economic conditions;
- unstable regulatory environments;
- changes in import and export duties;
- domestic and foreign customs and tariffs;
- currency rate fluctuations;
- trade restrictions;
- labor unrest;
- logistical challenges, including extended container port congestion;
- communications challenges; and
- other restraints and burdensome taxes.

These factors may have an adverse effect on our ability to efficiently and cost effectively source our purchased components overseas. In particular, if the U.S. dollar were to depreciate significantly against the currencies in which we purchase raw materials from foreign suppliers, our cost of goods sold could increase materially, which would adversely affect our results of operations.

We are vulnerable to supply disruptions from single-sourced suppliers.

We single-source certain types of parts in our product designs. Any delay in our suppliers' deliveries may impair our ability to deliver products to our customers. A wide variety of factors could cause such delays including, but not limited to, lack of capacity, economic downturns, availability of credit, weather events or natural disasters.

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As a U.S. corporation that conducts business in a variety of foreign countries, we are subject to the Foreign Corrupt Practices Act and a variety of anti-corruption laws worldwide. A determination that we violated any of these laws may affect our business and operations adversely.

The U.S. Foreign Corrupt Practices Act (FCPA) generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. The United Kingdom Bribery Act (UKBA) prohibits domestic and foreign bribery of the private sector as well as public officials. Any determination that we have violated any anti-corruption laws could have a material adverse effect on our financial position, operating results and cash flows.

Our total assets include goodwill and other indefinite-lived intangibles. If we determine these have become impaired, net income could be materially adversely affected.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived intangibles are comprised of certain tradenames. At December 31, 2017, goodwill and other indefinite-lived intangibles totaled \$849.8 million. We review goodwill and other intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the statement of comprehensive income. Future impairment may result from, among other things, deterioration in the performance of an acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of an acquired business or product line, and a variety of other circumstances. A reduction in net income resulting from the write-down or impairment of goodwill or indefinite-lived intangibles could have a material adverse effect on our financial statements.

We are unable to determine the specific impact of changes in selling prices or changes in volumes or mix of our products on our net sales.

Because of the wide range of products that we sell, the level of customization for many of our products, the frequent rollout of new products, the different accounting systems utilized, and the fact that we do not apply pricing changes uniformly across our entire portfolio of products, we are unable to determine with specificity the effect of volume or mix changes or changes in selling prices on our net sales.

We may not realize all of the anticipated benefits of our acquisitions or those benefits may take longer to realize than expected. We may also encounter significant unexpected difficulties in integrating acquired businesses.

Our ability to realize the anticipated benefits of our acquisitions will depend, to a large extent, on our ability to integrate the acquired businesses with our business. The integration of independent businesses is a complex, costly and time-consuming process. Further, integrating and managing businesses with international operations may pose challenges not previously experienced by our management. As a result, we may be required to devote significant management attention and resources to integrating the business practices and operations of any acquired businesses with ours. The integration process may disrupt our business and, if implemented ineffectively, could preclude realization of the full benefits expected by us. Our failure to meet the challenges involved in integrating an acquired business into our existing operations or otherwise to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations.

In addition, the overall integration of our acquired businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management's attention, and may cause our stock price to decline. The difficulties of combining the operations of acquired businesses with ours include, among others:

- managing a larger company;
 - maintaining employee morale and retaining key management and other employees;
- complying with newly applicable foreign regulations;
- integrating two business cultures, which may prove to be incompatible;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing customers and attracting new customers;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- the diversion of management's attention from ongoing business concerns and performance shortfalls as a result of the diversion of management's attention to the acquisition;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in applicable laws and regulations;
- managing tax costs or inefficiencies associated with integrating the operations of the combined company;
- unforeseen expenses or delays associated with the acquisition;
- difficulty comparing financial reports due to differing financial and/or internal reporting systems; and
- making any necessary modifications to internal financial control standards to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

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Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact our business, financial condition and results of operations. In addition, even if the operations of our acquired businesses are integrated successfully with our operations, we may not realize the full benefits of the transaction, including the synergies, cost savings or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Or, additional unanticipated costs may be incurred in the integration of our businesses. All of these factors could cause dilution to our earnings per share, decrease or delay the expected accretive effect of the acquisition, and cause a decrease in the price of our common stock. As a result, we cannot assure you that the combination of our acquisitions with our business will result in the realization of the full benefits anticipated from the transaction.

We may encounter difficulties in operating or implementing a new enterprise resource planning (ERP) system across our subsidiaries, which may adversely affect our operations and financial reporting.

Over the past two years, we have implemented a new ERP system for a majority of our business as part of our ongoing efforts to improve and strengthen our operational and financial processes and our reporting systems. We expect to implement the new ERP system at our other locations in future years. The ERP system may not provide the benefits anticipated, could add costs and complications to ongoing operations, and may impact our ability to process transactions efficiently, all of which may have a material adverse effect on the Company's business and results of operations.

Failures or security breaches of our networks or information technology systems could have an adverse effect on our business.

We rely heavily on information technology (IT) both in our products and services for customers and in our IT systems. Further, we collect and store sensitive information in our data centers and on our networks. Government agencies and security experts have warned about growing risks of hackers, cyber-criminals, malicious insiders and other actors targeting confidential information and all types of IT systems. These actors may engage in fraudulent activities, theft of confidential or proprietary information and sabotage.

Our IT systems and our confidential information may be vulnerable to damage or intrusion from a variety of attacks including computer viruses, worms or other malicious software programs. These attacks pose a risk to the security of the products, systems and networks of our customers, suppliers and third-party service providers, as well as to the confidentiality of our information and the integrity and availability of our data. While we attempt to mitigate these risks through controls, due diligence, training, surveillance and other measures, we remain vulnerable to information security threats.

Despite the precautions we take, an intrusion or infection of our systems could result in the disruption of our business, or a loss of proprietary or confidential information. Similarly, an attack on our IT systems could result in theft or disclosure of trade secrets or other intellectual property or a breach of confidential customer or employee information. Any such events could have an adverse impact on sales, harm our reputation and cause us to incur legal liability and increased costs to address such events and related security concerns. As the threats evolve and become more potent, we may incur additional costs to secure the products that we sell, as well as our data and infrastructure of networks and devices.

Recently enacted U.S. tax legislation, as well as future U.S. tax legislation, may adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, the President signed into law Public Law No. 115-97, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) that makes significant changes to U.S. federal income tax laws. We have performed a preliminary assessment of the impact of the Tax Act. However, as the Tax Act is complex and far-reaching, there could be future effects of the Tax Act that we have not identified and that could have an adverse effect on our business, results of operations, financial condition and cash flow.

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Risks related to our common stock

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our common stock or if our results of operations do not meet their expectations, our common stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade recommendations regarding our stock, or if our results of operations do not meet their expectations, our stock price could decline and such decline could be material.

Anti-takeover provisions in our amended and restated certificate of incorporation and by-laws could prohibit a change of control that our stockholders may favor and could negatively affect our stock price.

Provisions in our amended and restated certificate of incorporation and by-laws may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. For example, our amended and restated certificate of incorporation and by-laws:

- permit our Board of Directors to issue preferred stock with such terms as they determine, without stockholder approval;
- provide that only one-third of the members of the Board of Directors are elected at each stockholders meeting and prohibit removal without cause;
- require advance notice for stockholder proposals and director nominations; and
- contain limitations on convening stockholder meetings.

These provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation and could discourage potential takeover attempts and could adversely affect the market price of our common stock.

We do not have plans to pay dividends on our common stock in the foreseeable future.

We currently do not have plans to pay dividends in the foreseeable future on our common stock. We intend to use future earnings for the operation and expansion of our business, as well as for repayment of outstanding debt, acquisitions, and for share repurchases. In addition, the terms of our senior secured credit facilities limit our ability to pay dividends on our common stock. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future. While we may change this policy at some point in the future, we cannot assure that we will make such a change.

Risks related to our capital structure

We have indebtedness which could adversely affect our cash flow and our ability to remain in compliance with debt covenants and make payments on our indebtedness.

As of December 31, 2017, we had total indebtedness of \$928.7 million. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our indebtedness, combined with our other financial obligations and contractual commitments could have other important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default under the agreements governing our indebtedness;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- require us to dedicate a portion of our cash flow from operations to interest payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

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Any of the above-listed factors could adversely affect our business, financial condition, results of operations and cash flows. While we maintain interest rate swaps covering a portion of our outstanding debt, our interest expense could increase if interest rates increase because debt under our credit facilities bears interest at a variable rate once above a certain LIBOR floor. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can guarantee we will be able to do.

The terms of our credit facilities restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

Our credit facilities contain, and any future indebtedness of ours or our subsidiaries would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries, including restrictions on our ability to engage in acts that may be in our best long-term interests. These restrictions include, among other things, our ability to:

- incur liens;
- incur or assume additional debt or guarantees or issue preferred stock;
- pay dividends, or make redemptions and repurchases, with respect to capital stock;
- prepay, or make redemptions and repurchases of, subordinated debt;
- make loans and investments;
- make capital expenditures;
- engage in mergers, acquisitions, asset sales, sale/leaseback transactions and transactions with affiliates;
- change the business conducted by us or our subsidiaries; and
- amend the terms of subordinated debt.

The operating and financial restrictions in our credit facilities and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. A breach of any of the restrictive covenants in our credit facilities would result in a default. If any such default occurs, the lenders under our credit facilities may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, or enforce their security interest, any of which would result in an event of default. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. Our existing credit facilities do not contain any financial maintenance covenants.

We may need additional capital to finance our growth strategy or to refinance our existing credit facilities, and we may not be able to obtain it on acceptable terms, or at all, which may limit our ability to grow.

We may require additional financing to expand our business. Financing may not be available to us or may be available to us only on terms that are not favorable. The terms of our senior secured credit facilities limit our ability to incur additional debt. In addition, economic conditions, including a downturn in the credit markets, could impact our ability to finance our growth on acceptable terms or at all. If we are unable to raise additional funds or obtain capital on acceptable terms, we may have to delay, modify or abandon some or all of our growth strategies. In the future, if we are unable to refinance our credit facilities on acceptable terms, our liquidity could be adversely affected.

Item 1B. Unresolved Staff Comments

None.

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We own, operate or lease manufacturing, distribution and office facilities globally totaling over four million square feet. We also have inventory warehouses that accommodate material storage and rapid response requirements of our customers. The following table provides information about our principal facilities exceeding 10,000 square feet:

Location	Owned/	Activities	Segment
	Leased		
Waukesha, WI	Owned	Corporate headquarters, manufacturing, R&D, service parts distribution	Domestic
Eagle, WI	Owned	Manufacturing, office, training	Domestic
Whitewater, WI	Owned	Manufacturing, office, distribution	Domestic
Oshkosh, WI	Owned	Manufacturing, office, warehouse, R&D	Domestic
Berlin, WI	Owned	Manufacturing, office, warehouse, R&D	Domestic
Jefferson, WI	Owned	Manufacturing, distribution, R&D	Domestic
Various WI	Leased	warehouse	Domestic
Maquoketa, IA	Owned	Storage, rental property	Domestic
Vergennes, VT	Leased	Office	Domestic
Winooski, VT	Leased	Distribution	Domestic
Mexico City, Mexico	Owned	Manufacturing, sales, distribution, warehouse, office, R&D	International
Mexico City, Mexico	Leased	Office and warehouse	International
Milan, Italy	Leased	Manufacturing, sales, distribution, warehouse, office, R&D	International
Casole d'Elsa, Italy	Leased	Manufacturing, office, warehouse, R&D	International
Balsicas, Spain	Leased	Manufacturing, office, warehouse, R&D	International
Foshan, China	Owned	Manufacturing, office, warehouse, R&D	International
Saint-Nizier-sous-Charlieu, France	Leased	Sales, office, warehouse	International
Ribeirao Preto, Brazil	Leased	Manufacturing, office, warehouse	International
Fellbach, Germany	Leased	Sales, office, warehouse	International
Crewe, England	Leased	Sales, office, warehouse	International
Celle, Germany	Owned	Manufacturing, office, sales, R&D	International
Charzyno, Poland	Owned	Manufacturing	International

As of December 31, 2017, substantially all of our domestically-owned and a portion of our internationally-owned properties are subject to collateral provisions under our senior secured credit facilities.

Item 3. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, patent and employment matters and general commercial disputes arising in the ordinary course of our business. As of December 31, 2017, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Shares of our common stock are traded on the New York Stock Exchange (NYSE) under the symbol “GNRC.” The following table sets forth the high and low sales prices reported on the NYSE for our common stock by fiscal quarter during 2017 and 2016, respectively.

2017	High	Low
Fourth Quarter	\$52.09	\$48.21
Third Quarter	\$46.15	\$35.91
Second Quarter	\$37.29	\$34.52
First Quarter	\$42.64	\$36.79

2016	High	Low
Fourth Quarter	\$43.49	\$35.74
Third Quarter	\$38.00	\$33.13
Second Quarter	\$39.25	\$33.86
First Quarter	\$38.51	\$27.26

Table of Contents**Purchases of Equity Securities By the Issuer and Affiliated Purchasers**

The following table summarizes the stock repurchase activity for the three months ended December 31, 2017, which also consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

			Total Number Of	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs
	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased As Part Of Publicly Announced Plans Or Programs	
10/01/17 - 10/31/17	79	\$ 51.77	-	\$ 170,108,876
11/01/17 - 11/30/17	641	49.21	-	170,108,876
12/01/17 - 12/31/17	-	-	-	170,108,876
Total	720	\$ 49.49		

For equity compensation plan information, please refer to Note 15, "Share Plans," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index for the five-year period ended December 31, 2017. The graph and table assume that \$100 was invested on December 31, 2012 in each of our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index, and that all dividends were reinvested. Cumulative total stockholder returns for our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index are based on our fiscal year.

Company / Market / Peer Group	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Generac Holdings Inc.	\$ 100.00	\$ 187.73	\$ 154.98	\$ 98.67	\$ 135.03	\$ 164.13
S&P 500 Index - Total Returns	100.00	132.39	150.51	152.59	170.84	208.14
S&P 500 Industrials Index	100.00	140.68	154.50	150.59	178.99	216.64
Russell 2000 Index	100.00	138.82	145.62	139.19	168.85	193.58

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Holders

As of February 16, 2018, there were approximately 204 registered holders of record of Generac's common stock. A substantially greater number of holders of Generac common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

We do not have plans to pay dividends on our common stock in the foreseeable future. However, in the future, subject to factors such as general economic and business conditions, our financial condition and results of operations, our capital requirements, our future liquidity and capitalization, and other such factors that our Board of Directors may deem relevant, we may change this policy and choose to pay dividends. Our ability to pay dividends on our common stock is currently restricted by the terms of our senior secured credit facilities and may be further restricted by any future indebtedness we incur. Our business is conducted through our subsidiaries, including our principal operating subsidiary, Generac Power Systems, Inc. Dividends from, and cash generated by our subsidiaries will be our principal sources of cash to repay indebtedness, fund operations, repurchase shares of common stock and pay dividends. Accordingly, our ability to pay dividends to our stockholders is dependent on the earnings and distributions of funds from our subsidiaries, including Generac Power Systems, Inc.

Securities Authorized for Issuance Under Equity Compensation Plans

For information on securities authorized for issuance under our equity compensation plans, see "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," which is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Registered Securities

Not applicable.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The selected historical consolidated financial data for the years ended December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical consolidated financial data for the years ended December 31, 2014 and 2013 is derived from our audited historical consolidated financial statements not included in this annual report.

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The results indicated below and elsewhere in this annual report are not necessarily indicative of our future performance. This information should be read together with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto in Item 8 of this Annual Report on Form 10-K.

(U.S. Dollars in thousands, except per share data)	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statement of Operations Data:					
Net sales	\$1,672,445	\$1,444,453	\$1,317,299	\$1,460,919	\$1,485,765
Costs of goods sold	1,090,328	930,347	857,349	944,700	916,205
Gross profit	582,117	514,106	459,950	516,219	569,560
Operating expenses:					
Selling and service	171,755	164,607	130,242	120,408	107,515
Research and development	42,925	37,229	32,922	31,494	29,271
General and administrative	87,512	74,700	52,947	54,795	55,490
Amortization of intangibles (1)	28,861	32,953	23,591	21,024	25,819
Tradename and goodwill impairment (2)	-	-	40,687	-	-
Gain on remeasurement of contingent consideration (3)	-	-	-	(4,877)	-
Total operating expenses	331,053	309,489	280,389	222,844	218,095
Income from operations	251,064	204,617	179,561	293,375	351,465
Other (expense) income:					
Interest expense	(42,667)	(44,568)	(42,843)	(47,215)	(54,435)
Investment income	298	44	123	130	91
Loss on extinguishment of debt (4)	-	(574)	(4,795)	(2,084)	(15,336)
Gain (loss) on change in contractual interest rate (5)	-	(2,957)	(2,381)	16,014	-
Costs related to acquisitions	(777)	(1,082)	(1,195)	(396)	(1,086)
Other, net	(3,230)	902	(5,487)	(1,462)	(1,983)
Total other expense, net	(46,376)	(48,235)	(56,578)	(35,013)	(72,749)
Income before provision for income taxes	204,688	156,382	122,983	258,362	278,716
Provision for income taxes (6)	43,553	57,570	45,236	83,749	104,177
Net income	161,135	98,812	77,747	174,613	174,539
Net income attributable to noncontrolling interests	1,749	24	-	-	-
Net income attributable to Generac Holdings Inc.	\$159,386	\$98,788	\$77,747	\$174,613	\$174,539
Net income attributable to common shareholders per common share - diluted:	\$2.56	\$1.50	\$1.12	\$2.49	\$2.51
Statement of Cash Flows data:					
Depreciation	\$23,127	\$21,465	\$16,742	\$13,706	\$10,955
Amortization of intangible assets	28,861	32,953	23,591	21,024	25,819
Expenditures for property and equipment	(33,261)	(30,467)	(30,651)	(34,689)	(30,770)

Other Financial Data:

Adjusted EBITDA attributable to Generac Holdings Inc. (7)	\$311,655	\$274,603	\$270,816	\$337,283	\$402,613
Adjusted net income attributable to Generac Holdings Inc. (8)	212,858	198,257	198,436	234,165	301,664

(U.S. Dollars in thousands)	As of December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Current assets	\$818,556	\$683,509	\$632,017	\$707,637	\$627,310
Property and equipment, net	230,380	212,793	184,213	168,821	146,390
Goodwill	721,523	704,640	669,719	635,565	608,287
Other intangibles and other assets	249,505	260,742	292,686	352,396	394,237
Total assets	\$2,019,964	\$1,861,684	\$1,778,635	\$1,864,419	\$1,776,224
Total current liabilities	\$388,872	\$341,939	\$213,224	\$240,522	\$250,845
Long-term borrowings, less current portion	906,548	1,006,758	1,037,132	1,065,858	1,155,298
Other long-term liabilities	120,784	78,737	62,408	68,240	53,010
Redeemable noncontrolling interests	43,929	33,138	-	-	-
Total stockholders' equity	559,831	401,112	465,871	489,799	317,071
Total liabilities and stockholders' equity	\$2,019,964	\$1,861,684	\$1,778,635	\$1,864,419	\$1,776,224

(1) Our amortization of intangibles expense includes the straight-line amortization of customer lists, patents, certain tradenames and other finite-lived intangible assets.

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(2) During the fourth quarter of 2015, our Board of Directors approved a plan to strategically transition and consolidate certain of our brands acquired through acquisitions to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life and a \$36.1 million non-cash charge to write-down the impacted tradenames to net realizable value. Additionally, during the fourth quarter of 2015, a \$4.6 million goodwill impairment charge was recorded related to the write-down of the Ottomotores reporting unit goodwill. Refer to Note 2, “Significant Accounting Policies – Goodwill and Other Indefinite-Lived Intangible Assets,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the 2015 impairment charges.

(3) During the second quarter of 2014, we recorded a gain of \$4.9 million related to an adjustment to a certain earn-out obligation in connection with the Tower Light acquisition.

(4) Represents the non-cash write-off of original issue discount and deferred financing costs due to voluntary debt prepayments. Additionally, for the year ended December 31, 2013, includes the loss on extinguishment of debt as a result of a refinancing transaction in May 2013. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the losses on extinguishment of debt.

(5) For the year ended December 31, 2016, represents a non-cash loss in the third quarter 2016 relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times based on projections at that time. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times effective in the third quarter 2015 and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective in the second quarter 2014 and expected to remain below 3.0 times based on projections at that time. Following the May 2017 Term Loan amendment, which removed the pricing grid based on leverage ratio achieved, gains or losses on changes in contractual interest rate will no longer be recorded in the statements of comprehensive income. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(6) As a result of the Tax Act, we recognized a one-time, non-cash benefit of \$28.4 million in the fourth quarter of 2017 primarily from the impact of the revaluation of the net deferred tax liabilities. Refer to Note 13, “Income Taxes,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

(7) Adjusted EBITDA represents net income before noncontrolling interests, interest expense, taxes, depreciation and amortization, as further adjusted for the other items reflected in the reconciliation table set forth below. The

computation of adjusted EBITDA is based on the definition of EBITDA contained in the Term Loan and Amended ABL Facility (terms defined in Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K).

We view Adjusted EBITDA as a key measure of our performance. We present Adjusted EBITDA not only due to its importance for purposes of our credit agreements, but also because it assists us in comparing our performance across reporting periods on a consistent basis as it excludes items that we do not believe are indicative of our core operating performance. Our management uses Adjusted EBITDA:

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;
- as a benchmark for the determination of the bonus component of compensation for our senior executives under our management incentive plan, as described further in our Proxy Statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each period; and
- in communications with our Board of Directors and investors concerning our financial performance.

We believe Adjusted EBITDA is used by securities analysts, investors and other interested parties in the evaluation of the Company. Management believes the disclosure of Adjusted EBITDA offers an additional financial metric that, when coupled with results prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the reconciliation to U.S. GAAP results, provides a more complete understanding of our results of operations and the factors and trends affecting our business. We believe Adjusted EBITDA is useful to investors for the following reasons:

- Adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, tax jurisdictions, capital structures and the methods by which assets were acquired;
- investors can use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of our company, including our ability to service our debt and other cash needs; and
- by comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating performance excluding the impact of items described below.

The adjustments included in the reconciliation table listed below are provided for under our Term Loan and Amended ABL Facility, and also are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by our management and Board of Directors. These adjustments eliminate the impact of a number of items that:

- we do not consider indicative of our ongoing operating performance, such as non-cash write-downs and other charges, non-cash gains, write-offs relating to the retirement of debt, severance costs and other restructuring-related

business optimization expenses;

we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees; or

are non-cash in nature, such as share-based compensation expense.

We explain in more detail in footnotes (a) through (h) below why we believe these adjustments are useful in calculating Adjusted EBITDA as a measure of our operating performance.

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Adjusted EBITDA does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

several of the adjustments that we use in calculating Adjusted EBITDA, such as non-cash write-downs and other charges, while not involving cash expense, do have a negative impact on the value our assets as reflected in our consolidated balance sheet prepared in accordance with U.S. GAAP; and

other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Furthermore, as noted above, one of our uses of Adjusted EBITDA is as a benchmark for determining elements of compensation for our senior executives. At the same time, some or all of these senior executives have responsibility for monitoring our financial results, generally including the adjustments in calculating Adjusted EBITDA (subject ultimately to review by our Board of Directors in the context of the Board's review of our financial statements). While many of the adjustments (for example, transaction costs and credit facility fees), involve mathematical application of items reflected in our financial statements, others involve a degree of judgment and discretion. While we believe all of these adjustments are appropriate, and while the calculations are subject to review by our Board of Directors in the context of the Board's review of our financial statements, and certification by our Chief Financial Officer in a compliance certificate provided to the lenders under our Term Loan and Amended ABL Facility, this discretion may be viewed as an additional limitation on the use of Adjusted EBITDA as an analytical tool.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally.

The following table presents a reconciliation of net income to Adjusted EBITDA attributable to Generac Holdings Inc.:

(U.S. Dollars in thousands)	Year Ended December 31,				
	2017	2016	2015	2014	2013

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Net income attributable to Generac Holdings Inc.	\$159,386	\$98,788	\$77,747	\$174,613	\$174,539
Net income attributable to noncontrolling interests (a)	1,749	24	-	-	-
Net income	161,135	98,812	77,747	174,613	174,539
Interest expense	42,667	44,568	42,843	47,215	54,435
Depreciation and amortization	51,988	54,418	40,333	34,730	36,774
Provision for income taxes	43,553	57,570	45,236	83,749	104,177
Non-cash write-down and other adjustments (b)	2,923	357	3,892	(3,853)	78
Non-cash share-based compensation expense (c)	10,205	9,493	8,241	12,612	12,368
Tradenname and goodwill impairment (d)	-	-	40,687	-	-
Loss on extinguishment of debt (e)	-	574	4,795	2,084	15,336
(Gain) loss on change in contractual interest rate (f)	-	2,957	2,381	(16,014)	-
Transaction costs and credit facility fees (g)	2,145	2,442	2,249	1,851	3,863
Business optimization expenses (h)	2,912	7,316	1,947	-	-
Other	202	(120)	465	296	1,043
Adjusted EBITDA	317,730	278,387	270,816	337,283	402,613
Adjusted EBITDA attributable to noncontrolling interests	6,075	3,784	-	-	-
Adjusted EBITDA attributable to Generac Holdings Inc.	\$311,655	\$274,603	\$270,816	\$337,283	\$402,613

(a) Includes the noncontrolling interests' share of expenses related to Pramac purchase accounting, including the step-up in value of inventories and intangible amortization of \$4.7 million and \$8.0 million for the years ended December 31, 2017 and 2016, respectively.

(b) Represents the following non-cash charges: gains/losses on disposal of assets, unrealized mark-to-market adjustments on commodity contracts, transactional foreign currency gains/losses and certain purchase accounting related adjustments. Additionally, the year ended December 31, 2014 includes a gain of \$4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

We believe that adjusting net income for these non-cash charges is useful for the following reasons:

The gains/losses on disposals of assets result from the sale of assets that are no longer useful in our business and therefore represent gains or losses that are not from our core operations;

The adjustments for unrealized mark-to-market gains and losses on commodity contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of comprehensive income and cash flows to capture the full effect of these contracts on our operating performance;

The purchase accounting adjustments represent non-cash items to reflect fair value at the date of acquisition, and therefore do not reflect our ongoing operations; and

The adjustment to a certain earn-out obligation in connection with the Tower Light acquisition recorded in the year ended December 31, 2014, is a one-time charge that we believe does not reflect our ongoing operations.

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(c) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting period.

(d) During the fourth quarter of 2015, our Board of Directors approved a plan to strategically transition and consolidate certain of our brands acquired through acquisitions to the Generac® tradename. This brand strategy change resulted in a reclassification to a two year remaining useful life and a \$36.1 million non-cash charge to write-down the impacted tradenames to net realizable value. Additionally, during the fourth quarter of 2015, a \$4.6 million goodwill impairment charge was recorded related to the write-down of the Ottomotores reporting unit goodwill. Refer to Note 2, “Significant Accounting Policies – Goodwill and Other Indefinite-Lived Intangible Assets,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the 2015 impairment charges.

(e) Represents the non-cash write-off of original issue discount and deferred financing costs due to voluntary debt prepayments. Additionally, for the year ended December 31, 2013, includes the loss on extinguishment of debt as a result of a refinancing transaction in May 2013. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the losses on extinguishment of debt.

(f) For the year ended December 31, 2016, represents a non-cash loss relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times based on projections at that time. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times and expected to remain below 3.0 times based on projections at that time. Following the May 2017 Term Loan amendment, which removed the pricing grid based on leverage ratio achieved, gains or losses on changes in contractual interest rate will no longer be recorded in the statements of comprehensive income. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(g) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as:

administrative agent fees and revolving credit facility commitment fees under our Term Loan and Amended ABL Facility, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation;
transaction costs relating to the acquisition of a business; and

other financing costs incurred relating to the dividend recapitalization transaction in May 2013.

(h) Represents severance and non-recurring plant consolidation costs. Additionally, the year ended December 31, 2016 primarily represents charges relating to business optimization and restructuring costs to address the significant and extended downturn for capital spending within the oil & gas industry. These charges represent expenses that are not from our core operations and do not reflect our ongoing operations.

(8) Adjusted Net Income is defined as net income before noncontrolling interests and provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges, certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization expenses, certain other non-cash gains and losses, and adjusted net income attributable to noncontrolling interests.

We believe Adjusted Net Income is used by securities analysts, investors and other interested parties in the evaluation of our company's operations. Management believes the disclosure of Adjusted Net Income offers an additional financial metric that, when used in conjunction with U.S. GAAP results and the reconciliation to U.S. GAAP results, provides a more complete understanding of our ongoing results of operations, and the factors and trends affecting our business.

The adjustments included in the reconciliation table listed below are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by investors and securities analysts. Similar to the Adjusted EBITDA reconciliation, these adjustments eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance or cash flows, such as amortization costs, transaction costs and write-offs relating to the retirement of debt. We also make adjustments to present cash taxes paid as a result of our favorable tax attributes, causing our cash tax rate to be lower than our U.S GAAP tax rate.

Similar to Adjusted EBITDA, Adjusted Net Income does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs; although amortization is a non-cash charge, the assets being amortized may have to be replaced in the future, and Adjusted Net Income does not reflect any cash requirements for such replacements; and other companies may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

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The following table presents a reconciliation of net income to Adjusted Net Income attributable to Generac Holdings Inc.:

(U.S. Dollars in thousands)	Year Ended December 31,				
	2017	2016	2015	2014	2013
Net income attributable to Generac Holdings Inc.	\$ 159,386	\$ 98,788	\$ 77,747	\$ 174,613	\$ 174,539
Net income attributable to noncontrolling interests	1,749	24	-	-	-
Net income	161,135	98,812	77,747	174,613	174,539
Provision for income taxes	43,553	57,570	45,236	83,749	104,177
Income before provision for income taxes	204,688	156,382	122,983	258,362	278,716
Amortization of intangible assets	28,861	32,953	23,591	21,024	25,189
Amortization of deferred finance costs and original issue discount	3,516	3,940	5,429	6,615	4,772
Tradename and goodwill impairment	-	-	40,687	-	-
Loss on extinguishment of debt	-	574	4,795	2,084	15,336
(Gain) loss on change in contractual interest rate	-	2,957	2,381	(16,014)	-
Transaction costs and other purchase accounting adjustments (a)	1,706	5,653	2,710	(3,623)	2,842
Business optimization expenses	2,912	7,316	1,947	-	-
Adjusted net income before provision for income taxes	241,683	209,775	204,523	268,448	326,855
Cash income tax expense (b)	(25,624)	(9,299)	(6,087)	(34,283)	(25,821)
Adjusted net income	216,059	200,476	198,436	234,165	301,034
Adjusted net income attributable to noncontrolling interests	3,201	2,219	-	-	-
Adjusted net income attributable to Generac Holdings Inc.	\$ 212,858	\$ 198,257	\$ 198,436	\$ 234,165	\$ 301,034

(a) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, and certain purchase accounting adjustments. Additionally, the year ended December 31, 2014 includes a gain of \$4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

(b) For the years ended December 31, 2017 and 2016, the amount is based on a cash income tax rate of 12.5% and 5.9%, respectively. Cash income tax expense for 2017 and 2016 is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated by applying the derived cash tax rate to the period's pretax income. For the years ended December 31, 2015, 2014 and 2013, amounts are based on actual cash income taxes paid during each year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with “Item 1 – Business,” “Item 6 - Selected Financial Data” and the consolidated financial statements and the related notes thereto in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under “Item 1A - Risk Factors.”

Overview

We are 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. Power generation is our primary focus, which differentiates us from our main competitors that also have broad operations outside of the power equipment market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment market in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the marketplace, including residential, commercial and industrial standby generators, as well as portable and mobile generators used in a variety of applications. Other engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters and pumps used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

Recent Developments

On February 13, 2018, we signed a purchase agreement to acquire Selmec Equipos Industriales, S.A. de C.V. (Selmec), which is headquartered in Mexico City, Mexico. Selmec, which has approximately 300 employees, is a designer and manufacturer of industrial generators ranging from 10 kW to 2,750 kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.

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Business Drivers and Operational Factors

In operating our business and monitoring its performance, we pay attention to a number of business drivers and trends as well as operational factors. The statements in this section are based on our current expectations.

Business Drivers and Trends

Our performance is affected by the demand for reliable power generation products, mobile product solutions and other engine powered products by our customer base. This demand is influenced by several important drivers and trends affecting our industry, including the following:

Increasing penetration opportunity. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.0% of U.S. single-family detached, owner-occupied households with a home value of over \$100,000, as defined by the U.S. Census Bureau's 2015 American Housing Survey for the United States. The decision to purchase backup power for many light-commercial buildings such as convenience stores, restaurants and gas stations is more return-on-investment driven and as a result these applications have relatively lower penetration rates as compared to buildings used in code-driven or mission critical applications such as hospitals, wastewater treatment facilities, 911 call centers, data centers and certain industrial locations. The emergence of lower cost, cleaner burning natural gas fueled generators has helped to increase the penetration of standby generators over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to the growing importance for uninterrupted voice and data services. We believe by expanding our distribution network, continuing to develop our product line, and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness and have historically influenced demand for generators, both in the United States and internationally. Increased frequency and duration of major power outage events, that have a broader impact beyond a localized level, increases product awareness and may drive consumers to accelerate their purchase of a standby or portable generator during the immediate and subsequent period, which we believe may last for six to twelve months following a major power outage event for standby generators. For example, the major outage events that occurred during the second half of 2017 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to strong revenue growth in 2017. Major power disruptions are unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. In addition, there are smaller, more localized power outages that occur frequently across the United States that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the United States can also fluctuate, and may cause our financial results to fluctuate from year to year.

Impact of residential investment cycle. The market for residential generators is also affected by the residential investment cycle and overall consumer confidence and sentiment. When homeowners are confident of their household income, the value of their home and overall net worth, they are more likely to invest in their home. These trends can have an impact on demand for residential generators. Trends in the new housing market highlighted by residential housing starts can also impact demand for our residential generators. Demand for outdoor power equipment is also impacted by several of these factors, as well as weather precipitation patterns.

Impact of business capital investment cycles. The global market for our commercial and industrial products is affected by different capital investment cycles, which can vary across the numerous regions around the world in which we participate. These markets include non-residential building construction, durable goods and infrastructure spending as well as investments in the exploration and production of oil & gas, as businesses or organizations either add new locations or make investments to upgrade existing locations or equipment. These trends can have a material impact on demand for these products. The capital investment cycle may differ for the various commercial and industrial end markets that we serve including light commercial, retail, telecommunications, industrial, data centers, healthcare, construction, oil & gas and municipal infrastructure, among others. The market for these products is also affected by general economic and geopolitical conditions as well as credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment. We believe the passage of the Tax Act in late 2017 could have a favorable impact on future demand within many of the end markets that we serve, as the improved cash flow, liquidity and business sentiment may lead to further investments in equipment, facilities and infrastructure in the United States.

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Factors Affecting Results of Operations

We are subject to various factors that can affect our results of operations, which we attempt to mitigate through factors we can control, including continued product development, expanded distribution, pricing, cost control and hedging. Certain operational and other factors that affect our business include the following:

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum, along with other components we use in our products, can have a material impact on our results of operations. Also, acquisitions in recent years have further expanded our commercial and operational presence outside of the United States. These acquisitions, alon