

# GENERAC®

Fourth Quarter and Full Year 2010 Earnings  
Presentation – Friday February 18, 2011

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- **Net Sales:** +4.6% to \$161.0 million in Q4; +0.8% to \$592.9 million for FY 2010
  - Third consecutive year of Net Sales growth
- **Net Income:** +55.8% to \$18.6 million
- **Adjusted Net Income:** +27.2% to \$33.0 million
- Full year **Free Cash Flow**<sup>(1)</sup> of \$105 million, enabling a \$74.2 million debt pre-payment in Q4 2010

**Top-line growth and strong cash flow generation allow company to deliver significant debt pre-payment in fourth quarter**

(1) Free Cash Flow is defined as net cash provided by operating activities less expenditures for property and equipment.

# “Powering Ahead” Strategic Plan



## **Grow Residential Standby Market**

*Increase penetration of US Households beyond current 2% figure*

## **Gain Industrial Market Share**

*Increase share of commercial and industrial products sold in North America*

## **Diversify End Markets**

*Introduce new products and services to leverage brand, distribution and supply chain*

## **Enter New Geographies**

*Increase international sales of residential, light commercial and industrial products*

# Grow Residential Standby Market



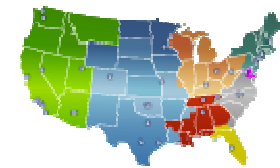
## Awareness

- Increase use of targeted direct marketing
- Outage response advertising
- Pre-season marketing campaigns



## Availability

- Add dealers in underserved markets
- Expand private label programs to target new distribution channels
- Leverage retail relationships to create awareness



**Honeywell**

## Affordability

- Introduced CorePower product – reduced opening price point
- Focus on reducing total cost of ownership – lower installation costs through innovation



Popular Mechanics Magazine



# Gain Industrial Market Share



## Upgrade & Expand Distribution

- Upgrade / expand current North American distribution footprint for industrial products; Leverage residential and light commercial dealer network
- Grow private label programs to further improve penetration opportunity for commercial gensets



## Build Relationships with Engineers

- Increase % of specifications where Generac is listed as an approved supplier
- Develop relationships with engineering firms responsible for developing project specifications



## Expand Product Offering

- New diesel product offering with exclusive use of Fiat engines introduced in 2010
- Introduce additional products to increase addressable market for our distribution



# Diversify End Markets; Enter New Geographies



## Diversify End Markets

- Development of new products to leverage brand, customer base, supply chain and manufacturing footprint
- Re-entry into pressure washer market an example of strategy to diversify demand
- Additional new products and services are being evaluated



## Enter New Geographies

- Build sales and marketing team for Latin American market
- Expand Latin American distribution already in place – add new global distribution
- Build brand leveraging Generac's core technologies



# Q4 & Full Year 2010 Financial Overview



(\$ in millions)

	<u>Actual Q4 2010</u>	<u>Y/Y % Change</u>	<u>Actual FY 2010</u>	<u>Y/Y % Change</u>
Residential	\$ 99.9	(1.7%)	\$ 372.8	0.6%
Industrial	52.4	16.9%	183.6	(2.0%)
Other	8.7	17.2%	36.5	21.1%
Net Sales	<u>\$ 161.0</u>	4.6%	<u>\$ 592.9</u>	0.8%
Gross Profit	\$ 63.8	0.3%	\$ 237.4	0.6%
<i>% Margin</i>	39.6%		40.0%	
Adjusted EBITDA	\$ 42.7	(3.0%)	\$ 156.2	(1.8%)
<i>% Margin</i>	26.5%		26.4%	
Net Income	\$ 18.6	55.8%	\$ 56.9	32.2%
Adjusted Net Income	\$ 32.9	27.1%	\$ 115.9	38.5%
Free Cash Flow	\$ 26.1	(6.5%)	\$ 104.9	49.6%
Consolidated Net Debt			\$ 578.6	(37.8%)
Consolidated Net Debt Leverage Ratio			3.7x	



# Fiscal Year 2011 Guidance



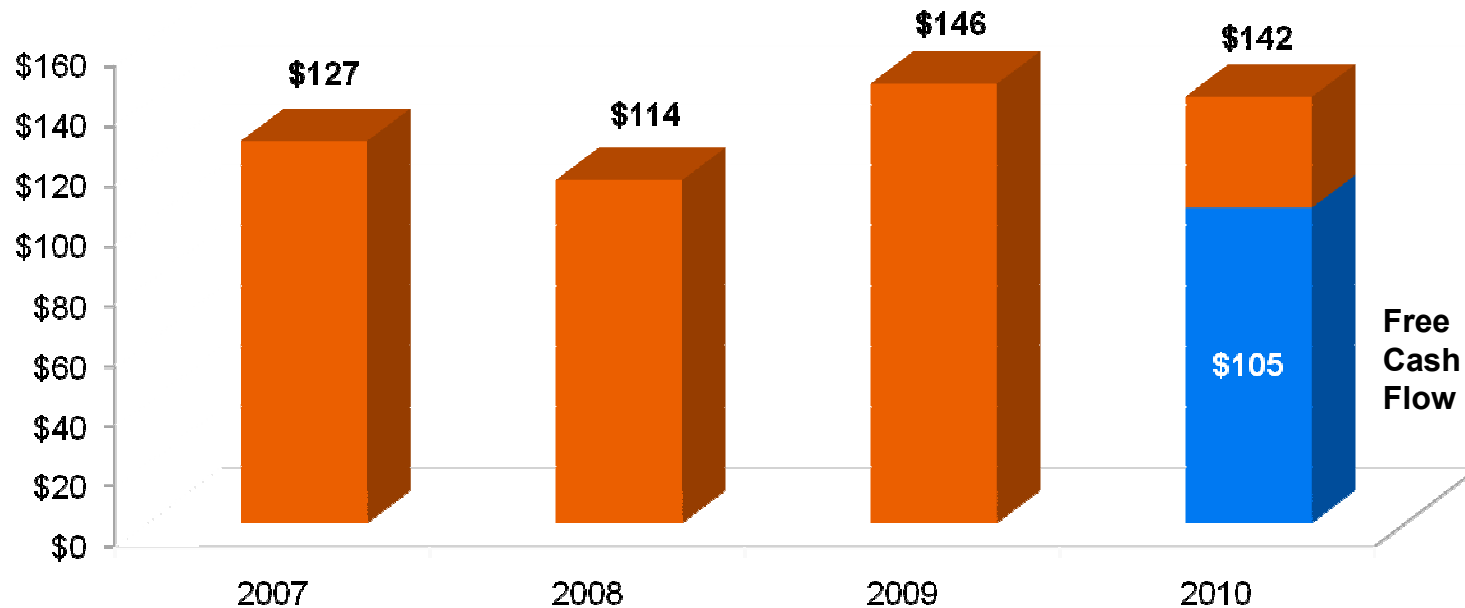
- Operating environment in 2011 similar to 2010
- Moderate sales growth overall; Maintain attractive gross margins
- Continue to invest prudently in our operating infrastructure
- Interest Expense: \$26-\$29 million, which includes \$24-\$27 million of cash interest and ~\$2 million for deferred financing cost amortization
- Cash Taxes: \$0.5-\$1.0 million
- Depreciation Expense: \$7.5-\$8.0 million
- Amortization Expense: \$48-\$49 million
- Stock Compensation Expense: \$7.0-\$7.5 million
- Capital Expenditures: \$11-\$13 million

# Continued Strong Free Cash Flow Generation



(\$ in millions)

### Unlevered Free Cash Flow <sup>(1)</sup>



**Strong Post-IPO Cash Flow → 10% Current Free Cash Flow Yield <sup>(2)</sup>**

(1) Unlevered free cash flow defined as Free Cash Flow plus cash interest expense.

(2) Based on \$105 million December 2010 LTM Free Cash Flow and GNRC market capitalization as of 2/15/11.

## Key Investment Highlights



- Powerful long-term industry fundamentals
- Low penetration of residential and light commercial standby generators
- Differentiated operating model creates sustainable competitive advantages
- Driving growth through innovation and distribution expansion
- Best-in-class profitability and cash flow generation



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**Appendix**

# Adjusted EBITDA Reconciliation



(\$ in thousands)

Net Income to Adjusted EBITDA Reconciliation	Three Months Ended December 31,		Year Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Net income	\$ 18,613	\$ 11,948	\$ 56,913	\$ 43,055
Interest expense	6,645	17,210	27,397	70,862
Depreciation and amortization	14,918	14,994	59,440	59,675
Income taxes provision	70	15	307	339
Non-cash impairment and other charges	(144)	(203)	(361)	(1,592)
Non-cash share-based compensation expense	1,728	-	6,363	-
Write-off of deferred financing costs related to debt extinguishment	629	-	4,809	-
Transaction costs and credit facility fees	169	20	1,019	1,188
Non-cash gains	-	-	-	(14,745)
Other	118	97	362	305
Adjusted EBITDA	\$ 42,746	\$ 44,081	\$ 156,249	\$ 159,087



# Adjusted Net Income & Free Cash Flow Reconciliation

**GENERAC®**

(\$ in thousands)

## Net Income to Adjusted Net Income Reconciliation

	Three Months Ended December 31,		Year Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Net income	\$ 18,613	\$ 11,948	\$ 56,913	\$ 43,055
Provision for income taxes	70	15	307	339
Income before provision for income taxes	18,683	11,963	57,220	43,394
Amortization of intangible assets	13,063	13,097	51,808	51,960
Amortization of deferred loan costs	569	855	2,439	3,417
Write-off of deferred financing costs related to debt extinguishment	629	-	4,809	-
Gain on extinguishment of debt	-	-	-	(14,745)
Adjusted net income before provision for income taxes	32,944	25,915	116,276	84,026
Cash income tax expense	(9)	6	(404)	(383)
Adjusted net income	\$ 32,935	\$ 25,921	\$ 115,872	\$ 83,643

## Free Cash Flow Reconciliation

	Three Months Ended December 31,		Year Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Net cash provided by operating activities	\$ 31,360	\$ 29,476	\$ 114,481	\$ 74,607
Expenditures for property and equipment	(5,307)	(1,623)	(9,631)	(4,525)
Free Cash Flow	\$ 26,053	\$ 27,853	\$ 104,850	\$ 70,082
Cash interest expense			36,796	75,601
Unlevered Free Cash Flow			\$ 141,646	\$ 145,683