

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

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)

Not Applicable

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	GNRC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

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 Exchange Act). Yes No

As of November 1, 2023, there were 61,431,577 shares of registrant's common stock outstanding.

**GENERAC HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Generac Holdings Inc.
Condensed Consolidated Balance Sheets
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 161,525	\$ 132,723
Accounts receivable, less allowance for credit losses of \$29,580 and \$27,664 at September 30, 2023 and December 31, 2022, respectively	589,226	522,458
Inventories	1,311,129	1,405,384
Prepaid expenses and other current assets	105,169	121,783
Total current assets	2,167,049	2,182,348
Property and equipment, net	511,893	467,604
Customer lists, net	188,513	206,987
Patents and technology, net	426,552	454,757
Other intangible assets, net	30,317	41,719
Tradenames, net	219,012	227,251
Goodwill	1,417,564	1,400,880
Deferred income taxes	17,140	12,746
Operating lease and other non-current assets	188,301	175,170
Total assets	\$ 5,166,341	\$ 5,169,462
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	\$ 74,346	\$ 48,990
Accounts payable	394,168	446,050
Accrued wages and employee benefits	56,454	45,741
Accrued product warranty	70,572	89,141
Other accrued liabilities	267,217	349,389
Current portion of long-term borrowings and finance lease obligations	37,337	12,733
Total current liabilities	900,094	992,044
Long-term borrowings and finance lease obligations	1,465,141	1,369,085
Deferred income taxes	113,390	125,691
Deferred revenue	160,264	143,726
Operating lease and other long-term liabilities	155,326	169,190
Total liabilities	2,794,215	2,799,736
Redeemable noncontrolling interests	5,639	110,471
Stockholders' equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized, 73,108,913 and 72,701,257 shares issued at September 30, 2023 and December 31, 2022, respectively	732	728
Additional paid-in capital	1,064,418	1,016,138
Treasury stock, at cost, 11,739,423 and 11,284,350 shares at September 30, 2023 and December 31, 2022, respectively	(880,858)	(808,491)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	2,423,346	2,316,224
Accumulated other comprehensive loss	(41,614)	(65,102)
Stockholders' equity attributable to Generac Holdings Inc.	2,363,908	2,257,381
Noncontrolling interests	2,579	1,874
Total stockholders' equity	2,366,487	2,259,255
Total liabilities and stockholders' equity	\$ 5,166,341	\$ 5,169,462

See notes to condensed consolidated financial statements.

Generac Holdings Inc.
Condensed Consolidated Statements of Comprehensive Income
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2023	2022	2023	2022
Net sales	\$ 1,070,667	\$ 1,088,258	\$ 2,958,997	\$ 3,515,505
Costs of goods sold	694,880	727,154	1,982,290	2,336,668
Gross profit	375,787	361,104	976,707	1,178,837
Operating expenses:				
Selling and service	117,929	170,381	334,360	388,690
Research and development	43,312	39,985	129,074	121,328
General and administrative	83,052	37,464	199,108	132,036
Amortization of intangibles	26,718	25,751	78,934	77,681
Total operating expenses	271,011	273,581	741,476	719,735
Income from operations	104,776	87,523	235,231	459,102
Other (expense) income:				
Interest expense	(24,707)	(15,514)	(72,862)	(35,303)
Investment income	1,160	451	2,789	620
Loss on extinguishment of debt	-	-	-	(3,743)
Other, net	(1,167)	(420)	(1,664)	331
Total other expense, net	(24,714)	(15,483)	(71,737)	(38,095)
Income before provision for income taxes	80,062	72,040	163,494	421,007
Provision for income taxes	19,428	11,594	43,184	86,028
Net income	60,634	60,446	120,310	334,979
Net income attributable to noncontrolling interests	257	2,176	2,305	6,492
Net income attributable to Generac Holdings Inc.	\$ 60,377	\$ 58,270	\$ 118,005	\$ 328,487
Net income attributable to Generac Holdings Inc. per common share - basic:	\$ 0.98	\$ 0.84	\$ 1.74	\$ 4.69
Weighted average common shares outstanding - basic:	61,368,440	63,249,881	61,552,949	63,480,161
Net income attributable to Generac Holdings Inc. per common share - diluted:	\$ 0.97	\$ 0.83	\$ 1.72	\$ 4.61
Weighted average common shares outstanding - diluted:	62,091,163	64,267,638	62,362,743	64,630,346
Comprehensive income attributable to Generac Holdings Inc.	\$ 37,041	\$ 21,683	\$ 141,463	\$ 264,912

See notes to condensed consolidated financial statements.

Generac Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. Dollars in Thousands, Except Share Data)
(Unaudited)

Generac Holdings Inc.											
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
	Shares	Amount		Shares	Amount						
Balance at July 1, 2023	73,097,016	\$ 732	\$ 1,053,759	(10,858,348)	\$ (779,892)	\$ (202,116)	\$ 2,363,015	\$ (16,216)	\$ 2,419,282	\$ 2,474	\$ 2,421,756
Unrealized gain on interest rate swaps, net of tax of \$349								1,045	1,045		1,045
Foreign currency translation adjustment								(26,443)	(26,443)	(93)	(26,536)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	11,897	-	732						732		732
Net share settlement of restricted stock awards				(5,495)	(699)				(699)		(699)
Stock repurchases				(875,580)	(100,267)				(100,267)		(100,267)
Share-based compensation			9,927						9,927		9,927
Redemption value adjustment							(46)		(46)		(46)
Net income							60,377		60,377	198	60,575
Balance at September 30, 2023	73,108,913	\$ 732	\$ 1,064,418	(11,739,423)	\$ (880,858)	\$ (202,116)	\$ 2,423,346	\$ (41,614)	\$ 2,363,908	\$ 2,579	\$ 2,366,487

Generac Holdings Inc.											
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
	Shares	Amount		Shares	Amount						
Balance at January 1, 2023	72,701,257	\$ 728	\$ 1,016,138	(11,284,350)	\$ (808,491)	\$ (202,116)	\$ 2,316,224	\$ (65,102)	\$ 2,257,381	\$ 1,874	\$ 2,259,255
Unrealized gain on interest rate swaps, net of tax of \$772								2,309	2,309		2,309
Foreign currency translation adjustment								21,179	21,179	(38)	21,141
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	396,713	4	2,563						2,567		2,567
Net share settlement of restricted stock awards				(45,611)	(5,496)				(5,496)		(5,496)
Stock repurchases				(875,580)	(100,267)				(100,267)		(100,267)
Share-based compensation			30,306						30,306		30,306
Payment of contingent consideration	10,943	-	15,411	466,118	33,396				48,807		48,807
Redemption value adjustment							(10,883)		(10,883)		(10,883)
Net income							118,005		118,005	743	118,748
Balance at September 30, 2023	73,108,913	\$ 732	\$ 1,064,418	(11,739,423)	\$ (880,858)	\$ (202,116)	\$ 2,423,346	\$ (41,614)	\$ 2,363,908	\$ 2,579	\$ 2,366,487

Generac Holdings Inc.											
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
	Shares	Amount		Shares	Amount						
Balance at July 1, 2022	72,588,588	\$ 727	\$ 967,819	(8,755,451)	\$ (475,294)	\$ (202,116)	\$ 2,210,582	\$ (82,839)	\$ 2,418,879	\$ 883	\$ 2,419,762
Unrealized gain on interest rate swaps, net of tax of \$4,647								13,757	13,757		13,757
Foreign currency translation adjustment								(51,324)	(51,324)	(396)	(51,720)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	51,413	1	1,321						1,322		1,322
Net share settlement of				(455)	(110)				(110)		(110)

restricted stock awards													
Stock repurchases				(536,633)	(123,900)				(123,900)				(123,900)
Share-based compensation			6,861						6,861				6,861
Redemption value adjustment						(5,225)			(5,225)				(5,225)
Net income						58,270			58,270		588		58,858

Balance at September 30, 2022	<u>72,640,001</u>	<u>\$ 728</u>	<u>\$ 976,001</u>	<u>(9,292,539)</u>	<u>\$ (599,304)</u>	<u>\$ (202,116)</u>	<u>\$ 2,263,627</u>	<u>\$ (120,406)</u>	<u>\$ 2,318,530</u>	<u>\$ 1,075</u>	<u>\$ 2,319,605</u>
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Generac Holdings Inc.

	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at January 1, 2022	72,386,017	\$ 725	\$ 952,939	(8,667,031)	\$ (448,976)	\$ (202,116)	\$ 1,965,957	\$ (54,755)	\$ 2,213,774	\$ 313	\$ 2,214,087
Unrealized gain on interest rate swaps, net of tax of \$13,381								39,614	39,614		39,614
Foreign currency translation adjustment								(105,265)	(105,265)	(470)	(105,735)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	253,984	3	(361)						(358)		(358)
Net share settlement of restricted stock awards				(88,875)	(26,428)				(26,428)		(26,428)
Stock repurchases				(536,633)	(123,900)				(123,900)		(123,900)
Share-based compensation			23,423						23,423		23,423
Redemption value adjustment						(30,817)			(30,817)		(30,817)
Net income						328,487			328,487	1,232	329,719
Balance at September 30, 2022	<u>72,640,001</u>	<u>\$ 728</u>	<u>\$ 976,001</u>	<u>(9,292,539)</u>	<u>\$ (599,304)</u>	<u>\$ (202,116)</u>	<u>\$ 2,263,627</u>	<u>\$ (120,406)</u>	<u>\$ 2,318,530</u>	<u>\$ 1,075</u>	<u>\$ 2,319,605</u>

See notes to condensed consolidated financial statements.

Generac Holdings Inc.
Condensed Consolidated Statements of Cash Flows
(U.S. Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2023	2022
Operating activities		
Net income	\$ 120,310	\$ 334,979
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	45,215	39,043
Amortization of intangible assets	78,934	77,681
Amortization of original issue discount and deferred financing costs	2,902	2,261
Loss on extinguishment of debt	–	3,743
Deferred income taxes	(18,715)	(83,272)
Share-based compensation expense	30,306	23,423
Gain on disposal of assets	(538)	(555)
Other noncash charges	380	7,037
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(68,975)	(20,810)
Inventories	101,894	(353,618)
Other assets	32,175	(7,033)
Accounts payable	(57,866)	(136,289)
Accrued wages and employee benefits	10,244	(17,418)
Other accrued liabilities	(70,622)	105,544
Excess tax benefits from equity awards	(920)	(17,068)
Net cash provided by (used in) operating activities	204,724	(42,352)
Investing activities		
Proceeds from sale of property and equipment	1,933	2,049
Proceeds from sale of investment	–	1,308
Proceeds from beneficial interests in securitization transactions	2,533	2,745
Contribution to equity method investment	(6,627)	(14,930)
Purchase of long-term investment	(2,592)	–
Expenditures for property and equipment	(77,718)	(64,833)
Acquisition of business, net of cash acquired	(15,974)	(11,421)
Net cash used in investing activities	(98,445)	(85,082)
Financing activities		
Proceeds from short-term borrowings	49,078	237,182
Proceeds from long-term borrowings	345,384	935,614
Repayments of short-term borrowings	(25,910)	(239,550)
Repayments of long-term borrowings and finance lease obligations	(233,101)	(540,481)
Stock repurchases	(100,267)	(123,900)
Payment of contingent acquisition consideration	(4,979)	(16,135)
Payment of debt issuance costs	–	(10,330)
Purchase of additional ownership interest	(104,844)	(375)
Cash dividends paid to noncontrolling interest of subsidiary	–	(309)
Taxes paid related to equity awards	(10,068)	(40,472)
Proceeds from exercise of stock options	7,139	13,627
Net cash (used in) provided by financing activities	(77,568)	214,871
Effect of exchange rate changes on cash and cash equivalents	91	(4,865)
Net increase in cash and cash equivalents	28,802	82,572
Cash and cash equivalents at beginning of period	132,723	147,339
Cash and cash equivalents at end of period	\$ 161,525	\$ 229,911

See notes to condensed consolidated financial statements.

Generac Holdings Inc.
Notes to Condensed Consolidated Financial Statements
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

1. Description of Business and Basis of Presentation

Founded in 1959, Generac Holdings Inc. ("the Company") is a leading global designer and manufacturer of a wide range of energy technology solutions. The Company provides power generation equipment, energy storage systems, energy management devices & solutions, and other power products and services serving the residential, light commercial, and industrial markets. Generac's power products and solutions are available globally through a broad network of independent dealers, distributors, retailers, e-commerce partners, wholesalers, and equipment rental companies, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of the Annual Report on Form 10-K for the year ended December 31, 2022). A summary of acquisitions affecting the reporting periods presented include:

- In June 2022, the Company acquired Electronic Environments Co. LLC and related subsidiaries (collectively "EEC"). Headquartered in Marlborough, Massachusetts, EEC is an industrial generator distributor as well as a provider of data center and telecom facility design, build, maintenance, and repair services.
- In October 2022, the Company acquired BPAC, Inc. ("Blue Pillar"), an industrial IoT platform developer that designs, deploys, and manages industrial IoT network software solutions to enable distributed energy generation monitoring and control.
- In February 2023, the Company acquired REFU Storage Systems ("REFUstor"), headquartered in Pfullingen, Germany. REFUstor is a developer and supplier of battery storage hardware products, advanced software, and platform services for the commercial and industrial energy storage market.

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

The condensed consolidated balance sheet as of September 30, 2023, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2023 and 2022, the condensed consolidated statements of stockholders' equity for the three and nine months ended September 30, 2023 and 2022, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2023 and 2022, have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments except where disclosed) necessary for the fair presentation of the financial position, results of operation, and cash flows have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

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

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2022.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standard updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). ASUs issued were assessed and have already been adopted in a prior period or determined to be either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.

2. Acquisitions

Fiscal 2023 Acquisitions

On February 1, 2023, the Company acquired REFUstor, headquartered in Pfullingen, Germany. REFUstor is a developer and supplier of battery storage hardware products, advanced software, and platform services for the commercial and industrial energy storage market.

The Company recorded its preliminary purchase price allocation for REFUstor during the first quarter of 2023, based on its estimates of the fair value of the acquired assets and assumed liabilities. Purchase accounting will be finalized prior to March 31, 2024, and there have not been any material changes to the balances acquired as of September 30, 2023. The accompanying condensed consolidated financial statements include the results of REFUstor from the date of acquisition through September 30, 2023. Pro forma and other financial information are not presented as the effects of the REFUstor acquisition are not material to the Company's results of operations or financial position prior to the acquisition date.

Fiscal 2022 Acquisitions

On June 30, 2022, the Company acquired EEC. Headquartered in Marlborough, Massachusetts, EEC is an industrial generator distributor as well as a provider of data center and telecom facility design, build, maintenance, and repair services.

On October 3, 2022, the Company acquired Blue Pillar, an industrial IoT platform developer that designs, deploys, and manages industrial IoT network software solutions to enable distributed energy generation monitoring and control.

The combined purchase price for these two acquisitions was \$25,654, net of cash acquired. The Company recorded its preliminary purchase price allocation for EEC and Blue Pillar during the second quarter and fourth quarter of 2022, respectively, based on its estimates of the fair value of the acquired assets and assumed liabilities. Purchase accounting for EEC was finalized in the second quarter of 2023 and did not result in material adjustments to the Company's preliminary estimates. The Company will finalize the purchase accounting for Blue Pillar in the fourth quarter of 2023. Through the third quarter of 2023, the combined purchase price for EEC and Blue Pillar has increased to \$27,456 due to working capital adjustments. The accompanying condensed consolidated financial statements include the results of the acquired businesses since the dates of acquisition through September 30, 2023. Pro forma and other financial information are not presented as the effects of the 2022 acquisitions are not material to the Company's results of operations or financial position prior to the acquisition dates.

3. Redeemable Noncontrolling Interest

On March 1, 2016, the Company acquired a 65% ownership interest in PR Industrial S.r.l. and its subsidiaries ("Pramac"). The 35% noncontrolling interest in Pramac had an acquisition date fair value of \$34,253 and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheets, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Pramac. In May 2021, the Company exercised its call option rights and paid a purchase price of \$27,164 to purchase an additional 15% ownership interest in Pramac, bringing the Company's total ownership interest in Pramac to 80%. On March 8, 2023, the Company and the noncontrolling interest holder entered into an agreement whereby the Company acquired the remaining 20% ownership interest in Pramac for a purchase price of \$116,754, which brought the Company's total ownership interest in Pramac to 100%. The purchase price included \$105,264 of initial consideration (which included a cash payment of \$104,844 and a \$420 gain on a foreign currency settlement in the first quarter of 2023) and \$11,490 of contingent deferred consideration to be paid in up to 135,205 restricted shares that were issued based on the twenty day volume weighted average price of the Company's stock ending on December 31, 2022, and which shall vest upon achievement of certain earnings targets at the end of the earn-out period, December 31, 2025.

On February 1, 2019, the Company acquired a 51% ownership interest in Captiva Energy Solutions Private Limited ("Captiva"). The 49% noncontrolling interest in Captiva had an acquisition date fair value of \$3,165 and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheets, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Captiva. The noncontrolling interest holder has a put option to sell his interest to the Company any time after five years from the date of acquisition, or earlier upon the occurrence of certain circumstances. Further, the Company has a call option that it may redeem any time after five years from the date of acquisition, or earlier upon the occurrence of certain circumstances. The put and call option price is based on a multiple of earnings, subject to the terms of the acquisition agreement. In March 2022, the Company signed an agreement to purchase an additional 15% ownership interest in Captiva for a purchase price of \$461, bringing the Company's total ownership interest in Captiva to 66%. In May 2022, the Company signed an amendment to the purchase agreement resulting in a revised purchase price of \$375, which was paid with cash on hand.

The redeemable noncontrolling interests are recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive income (loss), or the estimated redemption value, with any adjustments to the redemption value impacting retained earnings, but not net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note 13, "Earnings Per Share," to the condensed consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest for both Captiva and Pramac:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 5,688	\$ 82,830	\$ 110,471	\$ 58,050
Net income	58	1,589	1,728	5,261
Foreign currency translation	(153)	(2,708)	(689)	(6,817)
Purchase of additional ownership interest	-	-	(116,754)	(375)
Redemption value adjustment	46	5,225	10,883	30,817
Balance at end of period	<u>\$ 5,639</u>	<u>\$ 86,936</u>	<u>\$ 5,639</u>	<u>\$ 86,936</u>

4. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with ASC 815, *Derivatives and Hedging*, which requires derivative instruments to be reported on the condensed consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company is exposed to market risk such as changes in commodity prices, foreign currencies and interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company periodically utilizes commodity derivatives and foreign currency forward purchase and sales contracts in the normal course of business. Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in the Company's condensed consolidated statements of comprehensive income. These gains and losses are not material to the Company's condensed consolidated financial statements for the periods presented.

Interest Rate Swaps

In 2017, the Company entered into twenty interest rate swap agreements, the final four of which expired in May 2023. In March 2020, the Company entered into three additional interest rate swap agreements which were still outstanding as of September 30, 2023.

In June 2022, in conjunction with the amendments to the Company's credit agreements discussed further in Note 11, "Credit Agreements," the Company amended its interest rate swaps to match that of the underlying debt and reconfirmed hedge effectiveness. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges and therefore, the effective portions of their gains or losses are reported as a component of accumulated other comprehensive loss ("AOCL") in the condensed consolidated balance sheets.

The amount of gains, net of tax recognized, for the three and nine months ended September 30, 2023, were \$1,045 and \$2,309, respectively. The amount of gains, net of tax recognized, for the three and nine months ended September 30, 2022, were \$13,757 and \$39,614, respectively. The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

The following table presents the fair value of all of the Company's derivatives:

September 30, 2023	December 31, 2022
-------------------------------------	------------------------------------

Commodity contracts	\$	9	\$	-
Foreign currency contracts		(181)		94
Interest rate swaps		52,360		49,279

In the condensed consolidated balance sheets, the fair value of the commodity contracts is included in prepaid expenses and other current assets. The fair value of the foreign currency contracts is included in other accrued liabilities at September 30, 2023, and included in prepaid expenses and other current assets at December 31, 2022. The fair value of the interest rate swaps is included in operating lease and other non-current assets. Excluding the impact of credit risk, the fair value of the derivative contracts as of September 30, 2023, and December 31, 2022, is an asset of \$54,388 and \$51,184, respectively, which represents the amount the Company would receive to exit all of the agreements on those dates.

5. Fair Value Measurements

ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring basis or nonrecurring basis. ASC 820-10 clarifies fair value is an exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the pronouncement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings, and revolving facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based on their short-term nature. The fair value of the Term Loan B borrowing, which has a net carrying value of \$524,529, was \$530,000 (Level 2) at September 30, 2023, as calculated based on independent valuations which contain inputs and significant value drivers that are observable. The fair value of Term Loan A approximates the carrying value.

For the fair value of the derivatives measured on a recurring basis, refer to the fair value table in Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of the derivative contracts above considers the Company's credit risk in accordance with ASC 820-10.

Contingent Consideration

Certain of the Company's business combinations involve potential payment of future consideration contingent upon the achievement of certain milestones. As part of purchase accounting, a liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period, and the change in fair value is recognized within general and administrative expenses in the Company's condensed consolidated statements of comprehensive income. The fair value measurement of contingent consideration is typically categorized as a Level 3 liability, as the measurement amount is based primarily on significant inputs that are not observable in the market.

At September 30, 2023, the fair value of contingent consideration for Chilicon Power LLC ("Chilicon") and Pramac is \$38,746 and is included in other long-term liabilities in the condensed consolidated balance sheets. At December 31, 2022, the Company had contingent consideration of \$49,500 in other accrued liabilities and \$32,033 in other long-term liabilities in the condensed consolidated balance sheets. The earn-out period for the contingent consideration for Chilicon extends through December 31, 2028. The earn-out period for the contingent consideration for Pramac extends through December 31, 2025.

The following table provides a reconciliation of the activity for contingent consideration:

Beginning balance, January 1, 2023	\$	81,533
Changes in fair value		-
Additional contingent consideration (1)		11,490
Payment of contingent consideration (2)		(53,786)
Present value interest accretion		(491)
Ending balance, September 30, 2023	\$	<u>38,746</u>

(1) Represents \$11,490 of contingent deferred consideration for the Pramac buyout. See Note 3, "Redeemable Noncontrolling Interest".

(2) Includes payments of \$479 in cash and \$44,521 in shares for the ecobee acquisition, \$4,286 in shares for the Chilicon acquisition, and \$4,500 in cash for the Mean Green Products ("Mean Green") acquisition. The payment of common stock is accounted for as a non-cash item in the condensed consolidated statement of cash flows.

6. Accumulated Other Comprehensive Loss

The following table presents a disclosure of changes in AOCL during the three and nine months ended September 30, 2023 and 2022, net of tax:

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – July 1, 2023	\$ (53,923)	\$ 37,707	\$ (16,216)
Other comprehensive income (loss)	(26,443) (1)	1,045 (2)	(25,398)
Ending Balance – September 30, 2023	<u>\$ (80,366)</u>	<u>\$ 38,752</u>	<u>\$ (41,614)</u>

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – July 1, 2022	\$ (106,645)	\$ 23,806	\$ (82,839)
Other comprehensive income (loss)	(51,324) (3)	13,757 (4)	(37,567)
Ending Balance – September 30, 2022	<u>\$ (157,969)</u>	<u>\$ 37,563</u>	<u>\$ (120,406)</u>

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – January 1, 2023	\$ (101,545)	\$ 36,443	\$ (65,102)
Other comprehensive income (loss)	21,179 (5)	2,309 (6)	23,488
Ending Balance – September 30, 2023	<u>\$ (80,366)</u>	<u>\$ 38,752</u>	<u>\$ (41,614)</u>

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – January 1, 2022	\$ (52,704)	\$ (2,051)	\$ (54,755)
Other comprehensive income (loss)	(105,265) (3)	39,614 (7)	(65,651)
Ending Balance – September 30, 2022	<u>\$ (157,969)</u>	<u>\$ 37,563</u>	<u>\$ (120,406)</u>

- (1) Represents unfavorable impact from the strengthening of the U.S. dollar against foreign currencies during the three months ended September 30, 2023, particularly the Euro, British Pound, and Mexican Peso.
- (2) Represents unrealized gains of \$1,394 on the interest rate swaps, net of tax effect of \$(349) for the three months ended September 30, 2023.
- (3) Represents unfavorable impact from the strengthening of the U.S. dollar against foreign currencies during the three and nine months ended September 30, 2022, particularly the Euro and British Pound.
- (4) Represents unrealized gains of \$18,404 on the interest rate swaps, net of tax effect of \$(4,647) for the three months ended September 30, 2022.
- (5) Represents favorable impact from the weakening of the U.S. dollar against foreign currencies during the nine months ended September 30, 2023, particularly the Euro, British Pound, and Mexican Peso.
- (6) Represents unrealized gains of \$3,081 on the interest rate swaps, net of tax effect of \$(772) for the nine months ended September 30, 2023.
- (7) Represents unrealized gains of \$52,995 on the interest rate swaps, net of tax effect of \$(13,381) for the nine months ended September 30, 2022.

7. Segment Reporting

The Company has two reportable segments for financial reporting purposes – Domestic and International. The Domestic segment includes the legacy Generac business (excluding its traditional Latin American export operations), and all acquisitions that are based in the U.S. and Canada, all of which have revenues substantially derived from the U.S. and Canada. The International segment includes the legacy Generac business' Latin American export operations and the Company's various international acquisitions, all of which have revenues substantially derived from outside the U.S. and Canada. Both reportable segments design and manufacture a wide range of energy technology solutions and other power products. The Company has multiple operating segments, which it aggregates into the two reportable segments, based on materially similar economic characteristics, products, production processes, classes of customers, distribution methods, organizational structure, and regional considerations.

The Company's product offerings consist primarily of power generation equipment, energy storage systems, energy management devices and solutions, and other power products designed for varying end customer uses. While Residential products and Commercial & Industrial (C&I) products include similar products, they differ based on power output and end customer. The breakout of net sales between residential, C&I, and other products and services by reportable segment is as follows:

Product Classes	Net Sales by Segment		
	Three Months Ended September 30, 2023		
	Domestic	International	Total
Residential products	\$ 539,775	\$ 25,312	\$ 565,087
Commercial & industrial products	238,212	146,321	384,533
Other	108,378	12,669	121,047
Total net sales	<u>\$ 886,365</u>	<u>\$ 184,302</u>	<u>\$ 1,070,667</u>

Product Classes	Net Sales by Segment		
	Three Months Ended September 30, 2022		
	Domestic	International	Total
Residential products	\$ 635,772	\$ 28,343	\$ 664,115
Commercial & industrial products	196,485	114,701	311,186
Other	98,875	14,082	112,957
Total net sales	<u>\$ 931,132</u>	<u>\$ 157,126</u>	<u>\$ 1,088,258</u>

Product Classes	Net Sales by Segment		
	Nine Months Ended September 30, 2023		
	Domestic	International	Total
Residential products	\$ 1,389,112	\$ 93,426	\$ 1,482,538
Commercial & industrial products	700,941	430,935	1,131,876
Other	305,239	39,344	344,583
Total net sales	<u>\$ 2,395,292</u>	<u>\$ 563,705</u>	<u>\$ 2,958,997</u>

Product Classes	Net Sales by Segment		
	Nine Months Ended September 30, 2022		
	Domestic	International	Total
Residential products	\$ 2,246,113	\$ 90,959	\$ 2,337,072
Commercial & industrial products	515,771	383,492	899,263
Other	241,353	37,817	279,170
Total net sales	<u>\$ 3,003,237</u>	<u>\$ 512,268</u>	<u>\$ 3,515,505</u>

Residential products consist primarily of automatic home standby generators ranging in output from 7.5kW to 150kW, portable generators, energy storage systems, energy management devices and solutions, and other outdoor power equipment. These products are predominantly sold through independent residential dealers, national and regional retailers, e-commerce merchants, electrical/HVAC/solar wholesalers, solar installers, and outdoor power equipment dealers. The residential products revenue consists of the sale of the product to our distribution partners, which they in turn sell or rent to the end consumer, including installation and maintenance services. In some cases, residential products are sold direct to the end consumer. Substantially all of the residential product's revenues are transferred to the customer at a point in time.

C&I products consist of larger output stationary generators used in C&I applications with power outputs up to 3,250kW. Also included in C&I products are mobile generators, light towers, energy storage systems, mobile heaters, mobile pumps, and related controllers for power generation equipment. These products are sold globally through industrial distributors and dealers, equipment rental companies and equipment distributors. The C&I products revenue consists of the sale of the product to our distribution partners, which they in turn sell or rent to the end customer, including installation and maintenance services. In some cases, C&I products are sold direct to the end customer. Substantially all of the C&I products revenues are transferred to the customer at a point in time.

The Other product class consists primarily of aftermarket service parts and product accessories sold to our customers, the amortization of extended warranty deferred revenue, remote monitoring and grid services subscription revenue, as well as certain installation and maintenance service revenue. The aftermarket service parts and product accessories are generally transferred to the customer at a point in time, while the extended warranty revenue and subscription revenue are recognized over the life of the contract. Other service revenue is recognized when the service is performed.

The following table sets forth total sales by reportable segment and is inclusive of intersegment sales:

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Domestic	International	Eliminations	Total	Domestic	International	Eliminations	Total
External net sales	\$ 886,365	\$ 184,302	\$ -	\$ 1,070,667	\$ 931,132	\$ 157,126	\$ -	\$ 1,088,258
Intersegment sales	7,640	23,293	(30,933)	-	15,485	25,416	(40,901)	-
Total sales	<u>\$ 894,005</u>	<u>\$ 207,595</u>	<u>\$ (30,933)</u>	<u>\$ 1,070,667</u>	<u>\$ 946,617</u>	<u>\$ 182,542</u>	<u>\$ (40,901)</u>	<u>\$ 1,088,258</u>

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Domestic	International	Eliminations	Total	Domestic	International	Eliminations	Total
External net sales	\$ 2,395,292	\$ 563,705	\$ -	\$ 2,958,997	\$ 3,003,237	\$ 512,268	\$ -	\$ 3,515,505
Intersegment sales	33,960	84,078	(118,038)	-	44,742	59,075	(103,817)	-
Total sales	<u>\$ 2,429,252</u>	<u>\$ 647,783</u>	<u>\$ (118,038)</u>	<u>\$ 2,958,997</u>	<u>\$ 3,047,979</u>	<u>\$ 571,343</u>	<u>\$ (103,817)</u>	<u>\$ 3,515,505</u>

Management evaluates the performance of the Company's segments based primarily on Adjusted EBITDA, which is reconciled to income before provision for income taxes below. The computation of Adjusted EBITDA is defined as net income before noncontrolling interest adjusted for the following items: interest expense, depreciation expense, amortization of intangible assets, income tax expense, certain non-cash gains and losses including purchase accounting and contingent consideration adjustments, share-based compensation expense, losses on extinguishment of debt, certain transaction costs and credit facility fees, business optimization expenses, and certain other specific provisions noted below.

	Adjusted EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Domestic	\$ 160,270	\$ 159,810	\$ 331,134	\$ 572,159
International	28,332	24,006	94,088	79,532
Total adjusted EBITDA	<u>\$ 188,602</u>	<u>\$ 183,816</u>	<u>\$ 425,222</u>	<u>\$ 651,691</u>
Interest expense	(24,707)	(15,514)	(72,862)	(35,303)
Depreciation and amortization	(42,951)	(39,165)	(124,149)	(116,724)
Non-cash write-down and other adjustments (1)	(2,055)	6,840	5,257	10,025
Non-cash share-based compensation expense (2)	(9,927)	(6,861)	(30,306)	(23,423)
Loss on extinguishment of debt (3)	-	-	-	(3,743)
Transaction costs and credit facility fees (4)	(921)	(1,250)	(3,161)	(3,831)
Business optimization and other charges (5)	(5,291)	(622)	(8,151)	(3,371)
Provision for regulatory, legal, and clean energy product charges (6)	(22,113)	(55,265)	(27,913)	(55,265)
Other	(575)	61	(443)	951
Income before provision for income taxes	<u>\$ 80,062</u>	<u>\$ 72,040</u>	<u>\$ 163,494</u>	<u>\$ 421,007</u>

- (1) Includes gains/losses on disposals of assets and sales of certain investments, unrealized mark-to-market adjustments on commodity contracts, certain foreign currency related adjustments, and certain purchase accounting and contingent consideration adjustments.
- (2) Represents share-based compensation expense to account for stock options, restricted stock, and other stock awards over their respective vesting periods.
- (3) Represents the write-off of original issue discount and capitalized debt issuance costs due to voluntary debt prepayment.
- (4) 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.
- (5) Represents severance and other restructuring charges related to the consolidation of certain operating facilities and organizational functions.
- (6) The amount recorded in the third quarter 2023 represents a provision for judgments, estimates of pre-judgment interest and costs, and legal expenses related to certain patent lawsuits. The amount recorded in the first quarter 2023 represents a provision of \$5,800 for a matter with the Consumer Product Safety Commission ("CPSC") concerning the imposition of civil fines for allegedly failing to timely submit a report under the Consumer Product Safety Act ("CPSA") in relation to certain portable generators that were subject to a voluntary recall previously announced on July 29, 2021. The amount recorded in the third quarter of 2022 represents a specific bad debt provision of \$17,926 for a clean energy product customer that filed for bankruptcy as well as a warranty provision of \$37,338 to address certain clean energy product warranty-related matters.

The Company's sales in the U.S. represented approximately 79% and 82% of total sales for the three months ended September 30, 2023 and 2022, respectively. The Company's sales in the U.S. represented approximately 77% and 82% of total sales for the nine months ended September 30, 2023 and 2022, respectively. Approximately 75% and 77% of the Company's identifiable long-lived assets were located in the U.S. at September 30, 2023, and December 31, 2022, respectively.

8. Balance Sheet Details

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Raw material	\$ 766,826	\$ 798,340
Work-in-process	14,365	14,899
Finished goods	529,938	592,145
Total	<u>\$ 1,311,129</u>	<u>\$ 1,405,384</u>

Property and equipment consists of the following:

	September 30, 2023	December 31, 2022
Land and improvements	\$ 22,811	\$ 22,589
Buildings and improvements	255,165	243,553
Machinery and equipment	261,170	229,593
Dies and tools	41,536	37,343
Vehicles	10,920	9,807
Office equipment and systems	178,364	148,166
Leasehold improvements	8,494	6,849
Construction in progress	59,536	52,522
Gross property and equipment	<u>837,996</u>	<u>750,422</u>
Accumulated depreciation	<u>(326,103)</u>	<u>(282,818)</u>
Total	<u>\$ 511,893</u>	<u>\$ 467,604</u>

Total property and equipment includes finance leases of \$27,168 and \$24,719 on September 30, 2023, and December 31, 2022, respectively, primarily consisting of buildings and improvements. Amortization of finance lease right of use assets is recorded within depreciation expense in the condensed consolidated statements of comprehensive income. The initial measurement of new finance lease right of use assets is accounted for as a non-cash item in the condensed consolidated statements of cash flows.

9. Product Warranty Obligations

The Company records a liability for standard product warranty obligations accounted for as assurance warranties at the time of sale of the product to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. The following is a tabular reconciliation of the Company's standard product warranty liability accounted for as an assurance warranty:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 122,222	\$ 110,338	\$ 138,011	\$ 94,213
Payments	(24,427)	(22,677)	(76,069)	(54,135)
Provision for warranty issued	18,136	19,076	51,353	62,169
Changes in estimates for pre-existing warranties (1)	3,630	38,571	6,266	43,061
Balance at end of period	<u>\$ 119,561</u>	<u>\$ 145,308</u>	<u>\$ 119,561</u>	<u>\$ 145,308</u>

(1) Includes a specific warranty provision recorded during the third quarter of 2022 in the amount of \$37,338 to address certain clean energy product warranty-related matters.

Additionally, the Company sells extended warranty coverage for certain products, which it accounts for as a service warranty. The sales of extended warranties are recorded as deferred revenue, and typically have a duration of five to ten years. The deferred revenue related to extended warranty coverage is amortized over the duration of the extended warranty contract period, following the standard warranty period, using the straight-line method. Revenue is recognized on extended warranty contracts when the revenue recognition criteria are met, resulting in ratable recognition over the contract term. The amortization of deferred revenue is recorded to net sales in the condensed consolidated statements of comprehensive income. The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 140,922	\$ 121,898	\$ 132,813	\$ 111,647
Deferred revenue contracts issued	10,615	10,324	30,774	31,202
Amortization of deferred revenue contracts	(6,414)	(5,470)	(18,464)	(16,097)
Balance at end of period	<u>\$ 145,123</u>	<u>\$ 126,752</u>	<u>\$ 145,123</u>	<u>\$ 126,752</u>

The timing of recognition of the Company's deferred revenue balance related to extended warranties as of September 30, 2023, is as follows:

Remainder of 2023	\$ 6,521
2024	27,066
2025	28,060
2026	24,554
2027	19,461
After 2027	39,461
Total	<u>\$ 145,123</u>

Standard product warranty obligations and extended warranty related deferred revenues are included in the condensed consolidated balance sheets as follows:

	September 30, 2023	December 31, 2022
Product warranty liability		
Current portion - Accrued product warranty	\$ 70,572	\$ 89,141
Long-term portion - other long-term liabilities	48,989	48,870
Total	<u>\$ 119,561</u>	<u>\$ 138,011</u>
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	\$ 23,597	\$ 30,291
Long-term portion - Deferred revenue	121,526	102,522
Total	<u>\$ 145,123</u>	<u>\$ 132,813</u>

10. Contract Balances

While the Company's standard payment terms are less than one year, the specific payment terms and conditions in its customer contracts vary. In certain cases, the Company's customers pay for their goods in advance. These prepayments are recognized as customer deposits (contract liabilities) and recorded in other accrued liabilities in the condensed consolidated balance sheets. The balance of customer deposits was \$17,871 and \$33,551 on September 30, 2023, and December 31, 2022, respectively. During the nine months ended September 30, 2023, the Company recognized revenue of \$30,252 related to amounts included in the December 31, 2022, customer deposit balance. The Company typically recognizes revenue within one year of the receipt of the customer deposit.

11. Credit Agreements

Short-term borrowings included in the condensed consolidated balance sheets as of September 30, 2023, and December 31, 2022, consisted of borrowings by the Company's foreign subsidiaries on local lines of credit totaling \$74,346 and \$48,990, respectively.

Long-term borrowings are included in the condensed consolidated balance sheets as follows:

	September 30, 2023	December 31, 2022
Tranche A Term Loan	\$ 750,000	\$ 750,000
Tranche B Term Loan	530,000	530,000
Original issue discount and deferred financing costs	(13,666)	(16,568)
Revolving Facility	200,000	90,000
Finance lease obligation	30,235	27,420
Other	5,909	966
Total	1,502,478	1,381,818
Less: current portion of debt	33,823	10,083
Less: current portion of finance lease obligation	3,514	2,650
Total	\$ 1,465,141	\$ 1,369,085

Maturities of the Company's Tranche A Term Loan Facility, Tranche B Term Loan Facility, and Revolving Facility outstanding at September 30, 2023, are as follows:

	Tranche A Term Loan		Tranche B Term Loan		Revolving Facility	Total
2023	\$	9,375	\$	-	\$	9,375
2024		28,125		-	-	28,125
2025		46,875		-	-	46,875
2026		65,625		530,000	-	595,625
2027		600,000		-	200,000	800,000
Total	\$	750,000	\$	530,000	\$	200,000
					\$	1,480,000

The Tranche B Term Loan Facility matures on December 13, 2026, while the Tranche A Term Loan Facility and Revolving Facility mature on June 29, 2027. The Tranche A Term Loan Facility principal is repayable in quarterly installments with the first maturity in September 2023. Payment on the Tranche A Term Loan Facility is due on the last day of the quarter, or the following business day if the last day of the quarter is a non-business day.

The Company's credit agreements originally provided for a \$1,200,000 term loan B credit facility ("Tranche B Term Loan Facility") and included a \$300,000 uncommitted incremental term loan on that facility. The Tranche B Term Loan Facility initially bore interest at rates based on either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. After a number of amendments, the Tranche B Term Loan Facility currently bears interest at rates based on either a base rate plus an applicable margin of 0.75% or adjusted Secured Overnight Financing Rate ("SOFR") rate plus an applicable margin of 1.75%, subject to a SOFR floor of 0.00%. The interest rate for the Tranche B Term Loan Facility as of September 30, 2023, was 7.18%.

The Tranche B Term Loan Facility does not require an Excess Cash Flow payment if the Company's net secured leverage ratio is maintained below 3.75 to 1.00. As of September 30, 2023, the Company's net secured leverage ratio was 2.25 to 1.00, and the Company was in compliance with all covenants of the Tranche B Term Loan Facility. There are no financial maintenance covenants on the Tranche B Term Loan Facility.

In June 2022, the Company amended and restated its existing credit agreements ("Amended Credit Agreement") resulting in a new term loan facility in an aggregate principal amount of \$750,000 ("Tranche A Term Loan Facility"), established a new revolving facility with an available borrowing amount of \$1,250,000 ("Revolving Facility"), terminated the former asset-based lending facility ("ABL Facility"), and replaced all LIBOR provisions in the existing Tranche B Term Loan Facility with SOFR provisions. Proceeds received by the Company from the Tranche A Term Loan Facility were used to repay the total existing outstanding balance on the Company's former ABL Facility and to make a \$250,000 voluntary prepayment on the Tranche B Term Loan Facility, with the remaining funds to be used for future general corporate purposes. As a result of these prepayments, the Company wrote off \$3,546 of original issue discount and capitalized debt issuance costs during the second quarter of 2022 as a loss on extinguishment of debt in the condensed consolidated statements of comprehensive income.

The Tranche A Term Loan Facility and the Revolving Facility initially bore interest at a rate based on adjusted SOFR plus an applicable margin of 1.5% through December 31, 2022, subject to a SOFR floor of 0.0%. Beginning on January 1, 2023, the Tranche A Term Loan Facility and the Revolving Facility bear interest at a rate based on adjusted SOFR plus an applicable margin between 1.25% and 1.75%, based on the Company's total leverage ratio and subject to a SOFR floor of 0.0%. The interest rate for the Tranche A Term Loan Facility and the Revolving Facility as of September 30, 2023, was 7.10%.

The Tranche A Term Loan Facility and the Revolving Facility added certain financial covenants that require the Company to maintain a total leverage ratio below 3.75 to 1.00 as well as an interest coverage ratio above 3.00 to 1.00. As of September 30, 2023, the Company's total leverage ratio was 2.37 to 1.00, and the Company's interest coverage ratio was 7.00 to 1.00. The Company was in compliance with all other covenants of the Amended Credit Agreement as of September 30, 2023.

The Tranche B Term Loan Facility, Tranche A Term Loan Facility and Revolving Facility are guaranteed by substantially all of the Company's wholly-owned domestic restricted subsidiaries and are secured by associated collateral agreements which pledge a first priority lien on virtually all of the Company's assets, including fixed assets and intangibles, cash, trade accounts receivable, inventory, and other current assets and proceeds thereof.

In connection with the June 2022 refinancing and in accordance with ASC 470-50, the Company capitalized \$10,330 of fees paid to creditors as deferred financing costs on long-term borrowings and expensed \$800 of transaction fees. The Company evaluated on a lender-by-lender basis if the debt related to

returning lenders on the Revolving Facility was significantly modified or not, resulting in the write-off of \$197 in unamortized deferred financing costs related to the former ABL Facility as a loss on extinguishment of debt in the condensed consolidated statements of comprehensive income.

As of September 30, 2023, there was \$200,000 outstanding under the Revolving Facility, leaving \$1,049,945 of unused capacity, net of outstanding letters of credit. Total availability on the Revolving Facility is reduced to \$822,111 under the Company's most restrictive debt covenants.

See Note 4, "Derivative Instruments and Hedging Activities" and Item 7A of the Annual Report on Form 10-K for further information on interest rate swaps that are currently outstanding and partially offset the above interest rate expense.

12. Stock Repurchase Program

In September 2020, the Company's Board of Directors approved a stock repurchase program, which commenced on October 27, 2020, and allowed for the repurchase of up to \$250,000 of the Company's common stock over a 24-month period. That program was exhausted in the third quarter of 2022. In July 2022, the Company's Board of Directors approved another stock repurchase program, which commenced on August 5, 2022, and allows for the repurchase of up to \$500,000 of the Company's common stock over a 24-month period. Pursuant to the approved program, the Company may repurchase its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's credit agreements. The repurchases may be funded with cash on hand, available borrowings, or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. During the third quarter of 2023, the Company repurchased 875,580 shares of its common stock for \$100,267. There were no share repurchases under the program during the first and second quarters of 2023. During the third quarter of 2022, the Company repurchased 536,633 shares of its common stock for \$123,900. There were no share repurchases under the program during the first and second quarters of 2022. Since the inception of all stock repurchase programs (starting in August 2015), the Company has repurchased 12,624,293 shares of its common stock for \$877,396 (at an average cost per share of \$69.50). Periodically, the Company has reissued shares out of Treasury stock, including for earnout payments.

13. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period, exclusive of restricted shares. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options, as well as the satisfaction of certain contingent consideration conditions as of the end of the period. Refer to Note 3, "Redeemable Noncontrolling Interest", to the condensed consolidated financial statements for further information regarding the accounting for redeemable noncontrolling interests within earnings per share.

The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Three Months Ended September		Nine Months Ended September	
	30, 2023	2022	30, 2023	2022
Numerator				
Net income attributable to Generac Holdings Inc.	\$ 60,377	\$ 58,270	\$ 118,005	\$ 328,487
Redeemable noncontrolling interest redemption value adjustment	(46)	(5,225)	(10,883)	(30,817)
Net income attributable to common shareholders	<u>\$ 60,331</u>	<u>\$ 53,045</u>	<u>\$ 107,122</u>	<u>\$ 297,670</u>
Denominator				
Weighted average shares, basic	61,368,440	63,249,881	61,552,949	63,480,161
Dilutive effect of stock compensation awards (1)	722,723	1,006,814	809,794	1,139,242
Dilutive effect of contingently issued shares	-	10,943	-	10,943
Diluted shares	<u>62,091,163</u>	<u>64,267,638</u>	<u>62,362,743</u>	<u>64,630,346</u>
Net income attributable to common shareholders per share				
Basic	\$ 0.98	\$ 0.84	\$ 1.74	\$ 4.69
Diluted	\$ 0.97	\$ 0.83	\$ 1.72	\$ 4.61

(1) Excludes approximately 370,000 and 344,000 stock options and restricted stock awards for the three and nine months ended September 30, 2023, respectively, because they would be anti-dilutive. Excludes approximately 85,000 and 44,000 stock options and restricted stock awards for the three and nine months ended September 30, 2022, respectively, because they would be anti-dilutive.

14. Income Taxes

The effective income tax rates for the nine months ended September 30, 2023 and 2022, were 26.4% and 20.4%, respectively. The increase in the effective tax rate was primarily due to a significantly lower benefit from equity compensation coupled with lower year-over-year pre-tax book income in the current year, and certain favorable discrete tax items in the prior year which did not repeat.

15. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement on September 30, 2023, and December 31, 2022, was \$168.5 million and \$212.2 million, respectively.

On August 1, 2022, Power Home Solar, LLC d/b/a Pink Energy ("PHS") filed a lawsuit in the Western District of Virginia against Generac Power Systems, Inc., a wholly-owned subsidiary of the Company ("Generac Power"). The complaint alleges breaches of warranty, product liability, and other various causes of action against Generac Power relating to the sale and performance of certain clean energy equipment and seeks to recover damages, including consequential damages, that PHS allegedly incurred. The Company disputes the allegations in the complaint, including that PHS can seek consequential damages or amounts greater than the \$25.0 million liability cap set forth in the agreement between the parties. On September 23, 2022, Generac Power

moved to dismiss the complaint and compel arbitration consistent with the parties' agreement. On October 7, 2022, PHS filed a Chapter 7 bankruptcy petition in the Western District of North Carolina that identified Generac Power as one of its outstanding creditors. The petition listed a \$17.7 million liability to Generac Power, which PHS characterized as disputed. The \$17.7 million claim relates to equipment that Generac Power sold to PHS but was not paid for. After filing of the bankruptcy petition, the parties filed a joint motion to toll PHS's deadline to respond to the motion to dismiss and all other pretrial deadlines to allow the bankruptcy trustee to evaluate the complaint, which motion was granted on October 11, 2022. The Trustee has not yet taken further action in this lawsuit. Generac Power intends to vigorously defend against the claims in the complaint, in whichever forum they may proceed.

On October 28, 2022, Daniel Haak filed a putative class action lawsuit against Generac Power in the Middle District of Florida. The complaint alleges breaches of warranty, tort-based, and unjust enrichment claims against Generac Power relating to the sale and performance of certain clean energy products, and seeks to recover damages, including consequential damages, that the plaintiff and putative class allegedly incurred. Generac Power disputes the allegations and intends to vigorously defend against the claims in the complaint, including that plaintiff and the putative class can seek consequential damages.

Eight additional putative class actions were filed by consumers of Generac clean energy products between November 21, 2022 and July 5, 2023. These complaints assert claims for breaches of warranty, tort-based, statutory, and unjust enrichment claims against Generac Power and/or the Company and seek to recover damages, including consequential damages, that plaintiffs and putative classes allegedly incurred. In some of these cases, the Company as well as Generac Power has been named as a defendant. The cases were filed in or removed to the federal district courts for the Eastern District of Wisconsin (*Basler, et al. v. Generac Power Systems, Inc.*, Case No. 22-cv-01386; *Dillon v. Generac Power Systems, Inc.*, Case No. 23-cv-00034; *Kates v. Generac Power Systems, Inc., et al.*, Case No. 23-cv-00892; and *Zukas, et al., v. Generac Power Systems, Inc., et al.*, Case No. 23-cv-00874), the Northern District of California (*Moon v. Generac Power Systems, Inc., et al.*, Case No. 22-cv-09183; *Huften, et al., v. Generac Power Systems, Inc., et al.*, Case No. 23-cv-02462), the Eastern District of California (*Locatell v. Generac Power Systems, Inc., et al.*, Case No. 23-cv-00203), and the Eastern District of North Carolina (*Baltimore, et al. v. Generac Power Systems, Inc.*, Case No. 23-cv-00217). Generac Power and the Company dispute the allegations and intend to vigorously defend against the claims in the complaints.

On March 3, 2023, the plaintiff in the *Moon* case filed a motion (the "MDL Motion") to transfer that case and other pending putative class actions seeking relief for alleged harm purportedly arising in connection with a Generac clean energy product, to a proposed multidistrict litigation. The Judicial Panel on Multidistrict Litigation issued orders that ultimately resulted in all of the putative class actions being coordinated and consolidated for pretrial proceedings in the Eastern District of Wisconsin. Plaintiffs filed their consolidated master complaint on September 1, 2023, and the Company moved to dismiss on October 31, 2023. Generac Power and the Company intend to vigorously defend against the consolidated master complaint.

On December 1, 2022, Oakland County Voluntary Employees' Beneficiary Association and Oakland County Employees' Retirement System filed a putative securities class action lawsuit against the Company and certain of its officers in the Eastern District of Wisconsin. On January 20, 2023, the California Ironworkers Field Pension Trust filed a related putative securities class action, also in the United States District Court for the Eastern District of Wisconsin. Both complaints assert claims for alleged violation of federal securities law related to disclosures of quality issues in Generac Power's clean energy product, reliance on channel partners, and accounting for warranty reserves. The plaintiffs seek to represent a class of individuals who purchased or otherwise acquired common stock between April 29, 2021 and November 1, 2022 and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of the Company's stock. On March 14, 2023, the court consolidated the two actions. On May 30, 2023, the court appointed a lead plaintiff. On July 31, 2023, the lead plaintiff filed a consolidated complaint, which raised an additional claim for alleged violation of federal securities law related to the Company's disclosures concerning demand for home standby generators. The Company moved to dismiss the consolidated complaint on October 9, 2023. The Company disputes the allegations in the operative consolidated complaint and intends to vigorously defend against the claims in the consolidated class action.

On February 3, 2023, a purported Company shareholder filed a shareholder derivative action against certain of the Company's officers and directors in the United States District Court for the Eastern District of Wisconsin. The complaint seeks unspecified damages on behalf of the Company and certain other relief, such as certain reforms to corporate governance practices. The complaint (in which the Company is named as a nominal defendant) generally alleges, among other things, breaches of fiduciary duties in connection with the oversight of the Company's public statements and legal compliance, and that the Company was damaged as a result of the breaches of fiduciary duties, and the defendants were unjustly enriched. The complaint also alleges, among other things, violations of Sections 14(a), 10(b) and 20(a) of the Securities Exchange Act of 1934, abuse of control, gross mismanagement, and waste of corporate assets. On March 6, 2023, a second shareholder derivative action, making substantially similar allegations, was filed in the same court against certain of the Company's officers and directors. The complaint (in which the Company is named as a nominal defendant) asserts a single claim for breach of fiduciary duty and seeks unspecified damages on behalf of the Company and certain other relief. On May 2, 2023, the court consolidated the two actions. On May 30, 2023, the court entered an order staying the consolidated action.

Between March 20, 2023, and April 11, 2023, three shareholder derivative actions were filed in the Circuit Court of Waukesha County, Wisconsin. The complaints (in which the Company is named as a nominal defendant) assert breaches of fiduciary duty and unjust enrichment, among other claims, based generally on alleged misrepresentations in the Company's public statements and filings relating to the Company's clean energy product, reliance on channel partners, and accounting for warranty reserves, among other allegations. Each complaint seeks unspecified damages on behalf of the Company and certain other relief, including certain corporate governance reforms. On June 1, 2023, the court entered an order consolidating the three actions, appointing lead plaintiffs' counsel, and staying the consolidated actions. The Company disputes the allegations in the shareholder derivative actions and intends to vigorously defend against the claims in the complaints.

On October 28, 2022, Generac Power received a grand jury subpoena from the U.S. Attorney for the Eastern District of Michigan, as a result of which the Company became aware of an enforcement investigation by the U.S. Department of Justice ("DOJ"). The subpoena requests similar documents and information provided by the Company to the U.S. Environmental Protection Agency ("EPA") and the California Air Resources Board ("CARB") in response to civil document requests related to the Company's compliance with emissions regulations for approximately 1.85 thousand portable generators produced by the Company in 2019 and 2020 and sold in 2020. The Company is cooperating with both the DOJ and the EPA and CARB inquiries.

On November 30, 2022, the U.S. CPSC notified the Company of its intention to recommend the imposition of a civil penalty for failing to timely submit a report under section 19(a)(4) of the CPSA, 15 U.S.C. § 2068(a)(4), in relation to certain portable generators that were subject to a voluntary recall previously announced on July 29, 2021. On May 3, 2023, the parties entered into a mutual settlement agreement. The agreement does not constitute an admission by Generac or a determination by the CPSC that Generac violated the CPSA. The terms of the settlement agreement require the Company to (i) abide by certain customary agency requirements regarding the ongoing commitment to the Company's internal CPSA compliance practices and program, and (ii) pay a civil fine of \$15.8 million. On July 21, 2023, Generac Power received a grand jury subpoena from the U.S. Attorney for the Eastern District of Wisconsin, as a result of which the Company became aware of a continuing inquiry by the DOJ related to its statutory obligations under the CPSA in connection with this matter. The Company is cooperating fully with this investigation and, at this time, is unable to predict the eventual scope, duration or final outcome of such investigation.

In 2019, EcoFactor, Inc. started a litigation campaign against smart thermostat manufacturers, including ecobee, Inc., which was acquired by the Company in 2021. EcoFactor accused ecobee of infringing its patents in three lawsuits filed in the United States District Court for the Western District of Texas and one lawsuit pending in the United States District Court for the District of Delaware. On June 23, 2023, a jury issued a verdict in a consolidated action in the Western District of Texas (Case Nos. 21-cv-00428-ADA and 20-cv-00078-ADA) finding that ecobee infringed one of the two patents at issue and awarded a lump-sum payment of \$5.4 million for past and future damages. On August 23, 2023, the court issued its final judgment in favor of EcoFactor for \$5.4 million, on a total lump-sum basis, together with interest and costs. ecobee filed a motion for judgment as a matter of law and intends to appeal the judgment. There are presently two remaining trials involving EcoFactor. EcoFactor claims ecobee infringes two patents in Case No. 22-cv-00033-ADA, which is scheduled for a jury trial in the Western District of Texas on September 16, 2024, and accuses ecobee of infringing three patents in Case No. 21-cv-00323-ADA, which is currently scheduled for trial on December 11, 2023, in the District of Delaware. ecobee denies infringement and intends to vigorously defend each of the lawsuits.

On March 8, 2022, Ollnova Technologies Limited, a non-practicing entity, filed a patent infringement lawsuit against ecobee in the United States District Court for the Eastern District of Texas (Case No. 22-cv-00072-JRG). Ollnova claimed that ecobee infringes on four of its patents. On October 5, 2023, a jury issued a verdict finding one of Ollnova's patents invalid and that ecobee infringed at least one of the claims of the asserted patents and awarded a lump-sum payment of \$11.5 million. ecobee intends to file motions for judgment as a matter of law and an appeal of any adverse verdict.

On June 9, 2023, Spartronics Vietnam, Inc., a contract manufacturer of Generac Power's clean energy products, filed two lawsuits against Generac Power and sub-suppliers accusing Generac Power of fraud, breaching its supply agreement with Spartronics, tortiously interfering with Spartronics' relationships with its sub-suppliers, and requesting a determination of rights under the parties' agreements (*Spartronics Vietnam, Inc. v. Generac Power Systems, Inc., et al.*, Case No. 23-cv-00957-MWB (M.D. Pa.); *Spartronics Vietnam, Inc. v. Generac Power Systems, Inc., et al.*, Case No. GD-23-7206 (Pa. Allegheny Cnty.)). Spartronics made similar claims against Generac Power in third-party complaints in lawsuits Spartronics is defending brought by its suppliers (*EXIM & Mfr Enter. v. Spartronics Vietnam, Inc.*, Case No. 23-cv-00660-MWB (M.D. Pa.); *JC Global, Inc. v. Spartronics* (M.D. Fla. 23-cv-1155); and *Circuit Interruption Tech. v. Spartronics Vietnam, Inc.*, Case No. 23-cv-2140-WMW-DLM (D. Minn.)). Generac Power denies the allegations in the complaints, including that Generac Power is responsible for Spartronics purchasing practices, and has sought and will seek dismissal of the actions in favor of arbitration, as required by Generac Power's supply agreement with Spartronics, and intends to pursue available claims in connection with the arbitration.

In the opinion of management, it is presently unlikely that any legal or regulatory proceedings pending against or involving the Company will have a material adverse effect on the Company's financial condition, results of operations or cash flows. However, in many of these matters, it is inherently difficult to determine whether a loss is probable or to estimate the size or range of the possible loss given the variety and potential outcomes of actual and potential claims, the uncertainty of future rulings, the behavior or incentives of adverse parties, and other factors outside the control of the Company. Accordingly, the Company's loss reserves may change from time to time, and actual losses could exceed the amounts reserved by an amount that could be material to the Company's consolidated financial position, results of operations or cash flows in any particular reporting period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly 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," "optimistic" and other 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 quarterly 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 quarterly 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, 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;
- fluctuations in cost and quality of raw materials required to manufacture our products;
- availability of both labor and key components from our manufacturing operations and global supply chain, including single-sourced components and contract manufacturers, needed in producing our products;
- 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;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities, product mix, logistics costs and regulatory tariffs;
- difficulties we may encounter as our business expands globally or into new markets;
- our dependence on our distribution network;
- our ability to remain competitive by investing in, developing or adapting to changing technologies and manufacturing techniques, as well as protecting our intellectual property rights;
- loss of our key management and employees;
- increase in product and other liability claims or recalls;
- failures or security breaches of our networks, information technology systems, or connected products;
- changes in laws and regulations regarding environmental, health and safety, product compliance, or international trade that affect our products, operations, or customer demand;
- significant legal proceedings, claims, lawsuits, or government investigations; and
- changes in durable goods spending by consumers and businesses or other macroeconomic conditions, impacting demand for our products.

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 our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q. 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.

Overview

Generac is a leading energy technology solutions company that provides backup and prime power generation systems for residential and commercial and industrial (C&I) applications, solar and battery storage solutions, energy management devices and energy services, advanced power grid software platforms, and engine and battery-powered tools and equipment. As an energy technology solutions company that is "Powering a Smarter World", our corporate purpose is to lead the evolution to more resilient, efficient, and sustainable energy solutions around the world.

We have a long history of providing power generation products across a variety of applications, and we maintain one of the leading market positions in the power equipment markets in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the power generation marketplace, including residential, commercial and industrial standby generators; as well as portable and mobile generators used in a variety of applications. In recent years, the Company has been evolving its business model to focus on building out an ecosystem of energy technology products, solutions, and services for home and business purposes. As part of this evolution, we have made significant investments into rapidly growing markets such as residential clean energy storage, solar module-level power electronics (MLPE), and energy monitoring and management devices, all of which are distributed energy resources (DERs) that can be aggregated into virtual power plants (VPPs) within grid services programs. In addition, we have been leveraging our leading position in the growing market for natural gas fueled generators to expand into applications beyond standby power, allowing us to participate in Energy-as-a-Service and microgrid projects for C&I customers. We believe natural gas represents a cleaner transition fuel to more renewable and energy storage sources compared to diesel.

We have also made investments in next-generation platforms and controls for both residential and C&I applications that facilitate the connection of our products to the grid. Expanding these capabilities will enable the increasing utilization of our equipment as DERs as the nascent market for grid services

expands over the next several years. Our growing presence in grid services programs will enhance the value of our power generation and storage products that might otherwise sit idle, as they are now able to be dispatched and orchestrated as part of a distributed energy solution, thereby generating additional return-on-investment for the home or business owner while also delivering value to utilities and grid operators by helping to balance, support and enhance the reliability of the electrical grid. As the traditional centralized utility model evolves over time, we believe that a more decarbonized, digitized, and decentralized grid infrastructure will develop, and Generac's energy technology solutions are uniquely and strategically positioned to participate in this next-generation grid referred to as "Grid 2.0".

As our traditional power generation markets remain impacted by multiple mega-trends that are driving increased penetration of our products, we believe we are in an excellent position to execute on this opportunity given our competitive strengths. In addition, our focus on more resilient, efficient and sustainable energy solutions has dramatically increased our served addressable market, and as a result, we believe that Generac is well-positioned for success over the long-term.

Mega-Trends, Strategic Growth Themes, and Additional Business Drivers

In 2021, we unveiled our “Powering A Smarter World” strategic plan, which serves as the framework for the significant investments we have made and will continue to make to capitalize on the long-term growth prospects of Generac. Our enterprise strategy is based on a number of key mega-trends that we believe will drive several significant strategic growth themes for our business. See our Annual Report on Form 10-K for the year ended December 31, 2022 for more information on our “Powering A Smarter World” strategic plan.

Key Mega-Trends:

- *“Grid 2.0”*: which is the evolution of the traditional electrical utility model as supply/demand imbalances are created due to the accelerating adoption of renewable energy generation and the “electrification of everything” in society’s energy consumption. It includes the decarbonization, digitization, and decentralization of the grid and a migration toward distributed energy resources that is expected to drive demand for a variety of clean energy and grid services solutions going forward.
- *Impact of climate change*: which includes the expectation of more volatile and severe weather driving increased power outage activity, and more global regulation accelerating renewable investments.
- *Natural gas as an important transition fuel to the future*: as natural gas will remain in demand as a source of cleaner, reliable power generation for backup power and beyond standby applications, compared to diesel fuel.
- *Legacy infrastructure needs a major investment cycle*: to rebuild and upgrade aging networks and systems including transportation, water and power.
- *Telecommunications infrastructure shifting to next generation*: which involves the “5G” architecture that will enable new technologies requiring significant improvement in network uptime through backup power solutions.
- *Home as a Sanctuary*: in recent years, there has been a trend of more people working, shopping, entertaining, aging in place, and generally spending more time at home. As a result of this and the “electrification of everything” trend, homeowners are becoming increasingly sensitive to power outages due to lost productivity and functionality. These trends combined with ongoing elevated power outage activity has led to significantly increased awareness regarding the importance and need for backup power security.

Strategic Growth Themes:

Power quality issues continue to increase. Power disruptions are an important driver of consumer awareness for back-up power 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, increase 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 outage event. Energy storage systems offer similar resiliency advantages to consumers and can benefit from these same awareness drivers, at least for short duration power outages. The optional standby market for C&I power generation is also driven by power quality issues and the related need for backup power. Attitudes around climate change have shifted and undergone increased global focus, and an aging and underinvested electrical grid infrastructure remains highly vulnerable to the expectation of more volatile and severe weather. Additionally, rapid growth in renewable power sources such as solar and wind is resulting in increased intermittency of supply, further impairing the reliable supply of electricity at a time when demand is starting to increase meaningfully with the electrification of a wide range of consumer and commercial products, including transportation, HVAC systems, and other major appliances. These developments are causing a growing supply/demand imbalance for grid operators across North America, which has led to recent high-profile examples of rolling blackouts necessary to maintain grid integrity. In fact, the North American Electric Reliability Corporation has labeled significant portions of the continent as being at high risk of resource adequacy shortfalls during normal seasonal peak conditions in the 2023-2027 period due in part to these supply/demand dynamics. Further, in California, Public Safety Power Shutoff events have occurred whereby public utilities are turning off power supply to their customers under certain circumstances to prevent their transmission equipment from starting wildfires, which we anticipate may continue in the future. Taken together, we expect these factors to continue driving increased awareness and demand for Generac’s products within multiple categories.

Home standby penetration opportunity is significant. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. With only approximately 5.75% 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 \$150,000, as defined by the U.S. Census Bureau’s 2021 American Housing Survey for the United States), we believe there are significant opportunities to further penetrate the residential standby generator market both domestically and internationally. We believe by expanding our distribution network, continuing to develop our product lines, and targeting our marketing efforts, we can continue to build awareness and increase penetration for our home standby generators. Additionally, Smart Grid Ready capabilities have the potential to turn an asset previously utilized only in emergency power outage situations into a source of recurring revenue for the homeowner and a contributor to grid stability for utilities and grid operators, therefore driving incremental interest in the product category.

Solar, storage, and energy management markets developing quickly. We believe the electric utility landscape will undergo significant changes in the decade ahead due to rising utility rates, grid instability and power quality issues, environmental concerns, and the continuing performance and cost improvements in renewable energy and batteries. On-site power generation from renewable sources such as solar and wind, and cleaner-burning natural gas generators, is projected to become more prevalent as will the need to monitor, manage, and store this power – potentially developing into a significant market opportunity. We expect to further advance our capabilities in clean energy by increasing our product development, sourcing, distribution, and marketing efforts, as we leverage our significant competencies in the residential standby generator market to augment our market position in the emerging residential solar, storage, monitoring and management markets. Additionally, these markets are receiving an increasing level of regulatory and legislative support, most notably from the Inflation Reduction Act that was passed in 2022. This legislation includes significant subsidies and investment tax credits for consumers and business over the coming decade and provides necessary opportunity for long-term, value-creating investments for market participants.

Grid services and Energy-as-a-Service open new revenue streams. We expect the evolution of the traditional electrical utility model toward decarbonized, digitized, and decentralized solutions will continue to drive the need for grid operators to access and control DERs. This will require highly intelligent software platforms that are able to optimize an increasingly complex supply and demand equation, such as our Concerto software platform. As the grid services market matures, Generac will continue to explore opportunities beyond the traditional software-as-a-service subscription model, including but not limited to the aggregation and sale of power from a fleet of DERs in performance-based contracts, wholesale power market participation, turn-key solutions that combine hardware and software with services, and other monitoring and management services. Additionally, growing interest in our C&I products across a variety of “beyond standby” applications is driving an increase in demand for subscription-like models for end customers, in which Generac will partner with third parties to deliver peace of mind and resiliency solutions while also enabling contributions to grid stability with minimal upfront capital outlays. The significant advancements made in recent years in the connectivity of our products is core to these newer capabilities, which play a key role in the evolution of Generac into an energy technology solutions company.

Natural gas generators driving growth. We believe natural gas will continue to be an important and cleaner transition fuel of the future, in comparison to diesel, as the world continues to shift towards lower emission power generation sources. Demand for natural gas generators continues to represent an increasing portion of the overall C&I market, which we believe will continue to grow at a faster rate than traditional diesel fueled generators. We also continue to explore and expand our capabilities within new gaseous generator market opportunities, including continuous-duty, prime rated, distributed generation, demand response, microgrids and overall use as a distributed energy resource in areas where grid stability is needed. Many of these applications are made possible by our natural gas generators having Smart Grid Ready capabilities, which allows for end users to participate in available grid services programs, helping to offset the purchase price of the equipment over the product’s lifespan. Expanding our natural gas product offering into larger power nodes is also a part of this growth theme in taking advantage of the continuing shift from diesel to natural gas generators.

Rollout of 5G will require improved network quality. As the number of “connected” devices continues to rapidly increase and wireless networks are now being considered critical infrastructure in the United States, network reliability and up-time are necessary for our increasingly connected society. This will require highly resilient cell tower sites across the network, and therefore necessitates the need for backup power sources on site at these cell towers. Generac is the leading supplier of backup power to the telecommunications market in the United States, where approximately half of all existing tower sites have yet to be hardened with backup power. As more mission-critical data is transmitted over wireless networks, we believe this penetration rate must increase considerably to maintain a higher level of reliability across the network. Increased adoption of high-speed wireless networks around the globe may lead to similar demand trends internationally as growing cell tower density and the need for onsite backup power expand the market opportunity for our international telecom products. We have relationships with key Tier 1 carriers and tower companies globally in addition to having the distribution partners to support the global market from a service standpoint. We believe these factors coupled with Generac’s ability to customize solutions to each customer’s needs help us to maintain our strength within the global telecommunications market.

Other Business Drivers

Impact of residential investment cycle. The market for a number of our residential products is 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 and energy storage systems. Trends in the new housing market, highlighted by residential housing starts, can also impact demand for these products. Softer consumer spending for home improvement continued in the quarter as expected, impacting demand for residential product shipments. Demand for outdoor power equipment is also impacted by several of these factors, as well as weather patterns. Finally, the existence of renewable energy mandates, investment tax credits and other subsidies, which have become even more prevalent with the recent passing of the Inflation Reduction Act, can also have an impact on the demand for solar and energy storage systems.

Impact of business capital investment and other economic 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 cycles 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 and market conditions 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, office, 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 in the countries where we serve, as well as credit availability in those regions.

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, component price fluctuations, and resource availability. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum, along with other components we use in our products, as well as changes in labor costs required to produce our products, can have a material impact on our results of operations. Acquisitions in recent years have increased our use of advanced electronic components and battery cells, as well as further expanded our commercial and operational presence outside of the United States. Our international acquisitions, along with our existing global supply chain, expose us to fluctuations in foreign currency exchange rates and regulatory tariffs that can also have a material impact on our results of operations.

We have historically attempted to mitigate the impact of any inflationary pressures through improved product design and sourcing, manufacturing efficiencies, price increases, and select hedging transactions. We have implemented multiple price increases over the past couple of years to help mitigate the impact of rising costs, and we continue to realize the benefit of these pricing actions in 2023. Our results are also influenced by changes in fuel prices in the form of freight rates, which in some cases are accepted by our customers and in other cases are paid by us.

Seasonality. Although there is demand for our products throughout the year, in each of the past five years, approximately 19% to 25% of our net sales occurred in the first quarter, 22% to 28% in the second quarter, 24% to 28% in the third quarter and 23% to 31% in the fourth quarter, with different seasonality depending primarily on the occurrence, timing and severity of major power outage activity in each year. Major outage activity is unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. The seasonality experienced during a major power outage, and for the subsequent quarters following the event, will vary relative to other periods where no major outage events occurred.

Russia-Ukraine Conflict. In February 2022, Russia commenced military action against Ukraine. In response, the U.S. and certain other countries imposed significant sanctions and export controls against Russia, Belarus and certain individuals and entities connected to Russian or Belarusian political, business, and financial organizations. In March 2022, we announced our suspension of operations and sales in Russia. Our sales to customers in Russia and Ukraine represented less than 1% of our total revenue for the year ended December 31, 2021, and therefore the impact on our financial results has not been and is not expected to be material. However, the situation remains uncertain, and it is difficult to predict the impact that the conflict and actions taken in response to the conflict will have on our business. In particular, the situation could increase our costs, disrupt our supply chain, significantly hinder our ability to find materials or key single-sourced components we need to make certain products, or otherwise adversely affect our business and results of operations.

Factors influencing interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in SOFR, interest rate election periods, interest rate swap agreements, repayments or borrowings of indebtedness, and amendments to our credit agreements. In connection with our credit agreement amendment in June 2022, SOFR became the new benchmark interest rate for the new Tranche A Term Loan Facility and the Revolving Facility, and all LIBOR provisions in the existing Tranche B Term Loan Facility were replaced with SOFR provisions. During the nine months ended September 30, 2023, interest expense increased compared to the nine months ended September 30, 2022, primarily due to higher interest rates and borrowings. Refer to Note 11, "Credit Agreements," to the condensed consolidated financial statements for further information.

Factors influencing provision for income taxes and cash income taxes paid. The increase in the effective tax rate was primarily due to a significantly lower benefit from equity compensation coupled with lower year-over-year pre-tax book income in the current year, and certain favorable discrete tax items in the prior year which did not repeat. On August 16, 2022, the U.S. government enacted the Inflation Reduction Act (the Act). The Act in part provides funding and tax incentives for certain clean energy products and projects. While the Act did not impact the current quarter results, we will continue to review the Act and any regulations or guidance issued by the U.S. Treasury Department or by a state which may provide a tax benefit or expense. We will update our future tax provisions based on new regulations or guidance accordingly.

Acquisitions. 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 and Basis of Presentation," to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, and in Item 8 (Note 1, "Description of Business") of the Annual Report on Form 10-K for the year ended December 31, 2022.

Results of Operations

Three months ended September 30, 2023, compared to the three months ended September 30, 2022

The following table sets forth our consolidated statements of operations information for the periods indicated:

(U.S. Dollars in thousands)	Three Months Ended September 30,		\$ Change	% Change
	2023	2022		
Net sales	\$ 1,070,667	\$ 1,088,258	\$ (17,591)	-1.6%
Costs of goods sold	694,880	727,154	(32,274)	-4.4%
Gross profit	375,787	361,104	14,683	4.1%
Operating expenses:				
Selling and service	117,929	170,381	(52,452)	-30.8%
Research and development	43,312	39,985	3,327	8.3%
General and administrative	83,052	37,464	45,588	121.7%
Amortization of intangible assets	26,718	25,751	967	3.8%
Total operating expenses	271,011	273,581	(2,570)	-0.9%
Income from operations	104,776	87,523	17,253	19.7%
Total other expense, net	(24,714)	(15,483)	(9,231)	-59.6%
Income before provision for income taxes	80,062	72,040	8,022	11.1%
Provision for income taxes	19,428	11,594	7,834	67.6%
Net income	60,634	60,446	188	0.3%
Net income attributable to noncontrolling interests	257	2,176	(1,919)	-88.2%
Net income attributable to Generac Holdings Inc.	\$ 60,377	\$ 58,270	\$ 2,107	3.6%

The following tables set forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales by Reportable Segment		\$ Change	% Change
	Three Months Ended September 30,			
	2023	2022		
Domestic	\$ 886,365	\$ 931,132	\$ (44,767)	-4.8%
International	184,302	157,126	27,176	17.3%
Total net sales	\$ 1,070,667	\$ 1,088,258	\$ (17,591)	-1.6%

	Total Sales by Reportable Segment					
	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	External Net Sales	Intersegment Sales	Total Sales	External Net Sales	Intersegment Sales	Total Sales
Domestic	\$ 886,365	\$ 7,640	\$ 894,005	\$ 931,132	\$ 15,485	\$ 946,617
International	184,302	23,293	207,595	157,126	25,416	182,542
Intercompany elimination	-	(30,933)	(30,933)	-	(40,901)	(40,901)
Total net sales	\$ 1,070,667	\$ -	\$ 1,070,667	\$ 1,088,258	\$ -	\$ 1,088,258

	Adjusted EBITDA by Reportable Segment		\$ Change	% Change
	Three Months Ended September 30,			
	2023	2022		
Domestic	\$ 160,270	\$ 159,810	\$ 460	0.3%
International	28,332	24,006	4,326	18.0%
Total Adjusted EBITDA	\$ 188,602	\$ 183,816	\$ 4,786	2.6%

The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales by Product Class		\$ Change	% Change
	Three Months Ended September 30,			
	2023	2022		
Residential products	\$ 565,087	\$ 664,115	\$ (99,028)	-14.9%
Commercial & industrial products	384,533	311,186	73,347	23.6%
Other	121,047	112,957	8,090	7.2%
Total net sales	\$ 1,070,667	\$ 1,088,258	\$ (17,591)	-1.6%

Net sales. Domestic segment total sales (including inter-segment sales) decreased 6% to \$894.0 million as compared to \$946.6 million in the prior year quarter, with minimal favorable impact from acquisitions. The decline was driven by lower residential product sales primarily due to lower home standby and portable generator shipments as compared to the prior year. This was partially offset by growth in C&I product sales, highlighted by strong shipments to industrial distributors and direct customers for “beyond standby” applications.

International segment total sales (including inter-segment sales) increased 14% to \$207.6 million as compared to \$182.5 million in the prior year quarter, with acquisitions and foreign currency providing an approximate 11% favorable impact to revenue growth for the quarter. The sales growth for the segment was driven by varying levels of C&I product growth in most regions, partially offset by weaker portable generator sales in Europe.

In addition, total contribution from non-annualized acquisitions for the third quarter of 2023 was \$4.6 million, including \$0.5 million for the domestic segment and \$4.1 million for the international segment.

Gross profit. Gross profit margin was 35.1% as compared to 33.2% in the prior year third quarter. The increase in gross margin was primarily driven by lower raw material and logistics costs and production efficiencies. These margin benefits were partially offset by the impact of unfavorable sales mix.

Operating Expenses. Operating expenses decreased by \$2.6 million, or 0.9%, as compared to the third quarter of 2022. The operating expenses in the current quarter include \$22.1 million of charges related to certain patent litigation matters (see Note 15, "Commitments and Contingencies" for additional information). The operating expenses in the prior year quarter include a \$37.3 million provision for clean energy product warranty-related matters and a \$17.9 million provision for bad debt related to a clean energy product customer that filed bankruptcy. The remaining increase in operating expenses is due to increased employee and marketing costs in the current year and a favorable contingent consideration adjustment in the prior year.

Other Expense. The increase in other expense, net was driven primarily by higher interest expense due to higher interest rates and borrowings than the prior year quarter.

Provision for income taxes. The effective income tax rates for the three months ended September 30, 2023 and 2022, were 24.3% and 16.1%, respectively. The increase in the effective tax rate was primarily due to the prior year quarter including certain favorable discrete tax items and a larger benefit from equity compensation as compared to the current year quarter.

Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. was \$60.4 million compared to \$58.3 million in the prior year third quarter. This increase was primarily driven by the factors outlined above.

Adjusted EBITDA. Adjusted EBITDA for the domestic segment in the third quarter of 2023 was \$160.3 million, or 17.9% of domestic segment total sales, as compared to \$159.8 million in the prior year, or 16.9% of total sales. This margin improvement was primarily driven by favorable price and cost benefits, partially offset by unfavorable sales mix and higher employee and marketing expenses.

Adjusted EBITDA for the international segment in the third quarter of 2023, before deducting for non-controlling interests, was \$28.3 million, or 13.6% of international segment total sales, as compared to \$24.0 million, or 13.2% of total sales, in the prior year. This modest margin improvement was primarily driven by favorable price, cost and mix benefits.

Adjusted Net Income. Adjusted Net Income of \$101.9 million for the three months ended September 30, 2023, decreased 9.1% from \$112.2 million for the three months ended September 30, 2022. This decrease was primarily driven by the impact of various add-backs in the current and prior year quarters.

See "Non-GAAP Measures" for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

Results of Operations

Nine months ended September 30, 2023, compared to the nine months ended September 30, 2022

The following table sets forth our consolidated statements of operations information for the periods indicated:

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Net sales	\$ 2,958,997	\$ 3,515,505	\$ (556,508)	-15.8%
Costs of goods sold	1,982,290	2,336,668	(354,378)	-15.2%
Gross profit	976,707	1,178,837	(202,130)	-17.1%
Operating expenses:				
Selling and service	334,360	388,690	(54,330)	-14.0%
Research and development	129,074	121,328	7,746	6.4%
General and administrative	199,108	132,036	67,072	50.8%
Amortization of intangible assets	78,934	77,681	1,253	1.6%
Total operating expenses	741,476	719,735	21,741	3.0%
Income from operations	235,231	459,102	(223,871)	-48.8%
Total other expense, net	(71,737)	(38,095)	(33,642)	-88.3%
Income before provision for income taxes	163,494	421,007	(257,513)	-61.2%
Provision for income taxes	43,184	86,028	(42,844)	-49.8%
Net income	120,310	334,979	(214,669)	-64.1%
Net income attributable to noncontrolling interests	2,305	6,492	(4,187)	-64.5%
Net income attributable to Generac Holdings Inc.	\$ 118,005	\$ 328,487	\$ (210,482)	-64.1%

The following tables set forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales by Reportable Segment			
	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Domestic	\$ 2,395,292	\$ 3,003,237	\$ (607,945)	-20.2%
International	563,705	512,268	51,437	10.0%
Total net sales	\$ 2,958,997	\$ 3,515,505	\$ (556,508)	-15.8%

	Total Sales by Reportable Segment					
	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	External Net Sales	Intersegment Sales	Total Sales	External Net Sales	Intersegment Sales	Total Sales
Domestic	\$ 2,395,292	\$ 33,960	\$ 2,429,252	\$ 3,003,237	\$ 44,742	\$ 3,047,979
International	563,705	84,078	647,783	512,268	59,075	571,343
Intercompany elimination	-	(118,038)	(118,038)	-	(103,817)	(103,817)
Total net sales	\$ 2,958,997	\$ -	\$ 2,958,997	\$ 3,515,505	\$ -	\$ 3,515,505

	Adjusted EBITDA by Reportable Segment			
	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Domestic	\$ 331,134	\$ 572,159	\$ (241,025)	-42.1%
International	94,088	79,532	14,556	18.3%
Total Adjusted EBITDA	\$ 425,222	\$ 651,691	\$ (226,469)	-34.8%

The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales by Product Class			
	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Residential products	\$ 1,482,538	\$ 2,337,072	\$ (854,534)	-36.6%
Commercial & industrial products	1,131,876	899,263	232,613	25.9%
Other	344,583	279,170	65,413	23.4%
Total net sales	\$ 2,958,997	\$ 3,515,505	\$ (556,508)	-15.8%

Net sales. Domestic segment total sales (including inter-segment sales) declined \$618.7 million, or 20.3%, to \$2,429.3 million in the nine months ended September 30, 2023, with the impact of acquisitions contributing approximately 2% revenue growth for the nine month period. The decline in sales was driven primarily by lower home standby generator shipments due to higher field inventory levels, as well as a decline in portable generator and clean energy product shipments. This decline was partially offset by strong C&I product sales growth across most channels, highlighted by national rental equipment, industrial distributors, and other direct customers for "beyond standby" applications.

International segment total sales (including inter-segment sales) increased \$76.4 million, or 13.4%, to \$647.8 million, with the net impact of acquisitions and foreign currency contributing approximately 4% revenue growth for the nine month period. The sales growth for the segment was primarily driven by strength in nearly all regions around the world, partially offset by weaker portable generator sales in Europe.

In addition, total contribution from non-annualized acquisitions for the nine months ended September 30, 2023, was \$64.1 million, including \$56.8 million for the domestic segment and \$7.3 million for the international segment.

Gross profit. Gross profit margin for the nine months ended September 30, 2023, was 33.0% compared to 33.5% in the prior year comparable period. This decline in margin was primarily due to the impact of unfavorable sales mix, partially offset by higher pricing and lower raw material and logistics costs.

Operating Expenses. Operating expenses for the nine months ended September 30, 2023, increased \$21.7 million or 3.0%, as compared to the prior year comparable period. The operating expenses in the current period include a \$5.8 million provision for a regulatory matter with the CPSC and \$22.1 million of legal charges related to patent litigation (see Note 15, “Commitments and Contingencies” for additional information) as well as an increase in employee and marketing costs. The operating expenses in the prior period include a \$37.3 million provision for clean energy product warranty-related matters and a \$17.9 million provision for bad debt related to a clean energy product customer that filed for bankruptcy, as well as a favorable contingent consideration adjustment.

Other Expense. The increase in other expense, net was driven primarily by higher interest expense due to higher interest rates and borrowings compared to the prior year comparable period. The increase was partially offset by a \$3.7 million non-cash write-off of original issue discount and deferred financing costs due to a \$250 million prepayment of our Tranche B Term Loan Facility in the prior year period.

Provision for income taxes. The effective income tax rates for the nine months ended September 30, 2023 and 2022, were 26.4% and 20.4%, respectively. The increase in the effective tax rate was primarily due to a significantly lower benefit from equity compensation coupled with lower year comparable period pre-tax book income in the current year period compared to the prior.

Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. for the nine months ended September 30, 2023, was \$118.0 million as compared to \$328.5 million in the prior year comparable period. This decrease was primarily driven by the factors outlined above.

Adjusted EBITDA. Adjusted EBITDA for the domestic segment in the nine months ended September 30, 2023, was \$331.1 million or 13.6% of total domestic segment total sales, as compared to \$572.2 million, or 18.8%, in the prior year comparable period. This lower margin performance was primarily driven by the significant impact of unfavorable sales mix and reduced operating leverage on lower shipments. The impact of acquisitions and investments for future growth also negatively affected margins during the period. These headwinds were partially offset by favorable price and cost benefits.

Adjusted EBITDA for the international segment in the nine months ended September 30, 2023, before deducting for non-controlling interests, was \$94.1 million, or 14.5% of international segment total sales, as compared to \$79.5 million, or 13.9%, of total sales, in the prior year comparable period. This stronger margin performance was primarily driven by favorable price and cost benefits and improved operating leverage on higher sales volume.

Adjusted Net Income. Adjusted Net Income of \$209.1 million for the nine months ended September 30, 2023, decreased 50.8% from \$425.3 million for the nine months ended September 30, 2022. This decrease was primarily driven by lower net income due to the factors outlined above, together with the impact of various add-backs in the first nine months of the current and prior years.

See “Non-GAAP Measures” for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

Liquidity and Financial Condition

Our primary cash requirements include payment for our raw materials and components, salaries and benefits, facility and lease costs, operating expenses, interest and principal payments on our debt, and capital expenditures. We finance our operations primarily through cash flow generated from operations and, if necessary, borrowings under our revolving credit facility.

Our credit agreements originally provided for a \$1.2 billion term loan B credit facility ("Tranche B Term Loan Facility") and currently include a \$300.0 million uncommitted incremental term loan facility. Additionally, our credit agreements originally provided for a \$500.0 million ABL Facility that was paid off and terminated in June 2022.

In June 2022, we amended and restated our existing credit agreements ("Amended Credit Agreement") resulting in a new term loan facility in an aggregate principal amount of \$750 million ("Tranche A Term Loan Facility"), established a new revolving facility with an available borrowing amount of \$1.25 billion ("Revolving Facility"), terminated the former ABL Facility, and replaced all LIBOR provisions in the existing Tranche B Term Loan Facility with SOFR provisions. Proceeds received from the Tranche A Term Loan Facility were used to repay the total existing outstanding balance on our former ABL Facility and make a \$250 million voluntary prepayment on the Tranche B Term Loan Facility, with the remaining funds to be used for future general corporate purposes. As a result of these prepayments, we wrote off \$3.5 million of original issue discount and capitalized debt issuance costs during the second quarter of 2022 as a loss on extinguishment of debt in the condensed consolidated statements of comprehensive income. The Revolving Facility was unfunded at closing.

As of September 30, 2023, there was \$530 million outstanding under the Tranche B Term Loan Facility, \$750 million outstanding under the Tranche A Term Loan Facility, and \$200 million of borrowings on our Revolving Facility, leaving \$1,049.9 million of unused capacity, net of outstanding letters of credit. Our Tranche B Term Loan Facility bears interest at rates based on either a base rate plus an applicable margin of 0.75% or adjusted SOFR rate plus an applicable margin of 1.75%, subject to a SOFR floor of 0.0%. Beginning on January 1, 2023, the Tranche A Term Loan Facility and Revolving Facility bear interest at a rate based on adjusted SOFR plus an applicable margin between 1.25% and 1.75%, based on our total leverage ratio and subject to a SOFR floor of 0.0%. At September 30, 2023, the interest rates for the Tranche A Term Loan Facility, Revolving Facility, and Tranche B Term Loan Facility were 7.10%, 7.10%, and 7.18%, respectively. See Note 4, "Derivative Instruments and Hedging Activities" and Item 7A of the Annual Report on Form 10-K for the year ended December 31, 2022, for further information on interest rate swaps that are currently outstanding and partially offset the above interest expense.

The Tranche B Term Loan Facility matures on December 13, 2026, while the Tranche A Term Loan Facility and Revolving Facility mature on June 29, 2027. The Tranche A Term Loan Facility principal is repayable in quarterly installments with the first maturity in September 2023. Payment on the Tranche A Term Loan Facility is due on the last day of the quarter, or the following business day if the last day of the quarter is a non-business day. Payments on the Revolving Facility are not due until 2027. The maturity schedule on these facilities is as follows:

2023	\$	9,375
2024		28,125
2025		46,875
2026		595,625
2027		800,000
Total	\$	<u>1,480,000</u>

The Tranche B Term Loan Facility does not require an Excess Cash Flow payment (as defined in the Amended Credit Agreement) if our net secured leverage ratio is maintained below 3.75 to 1.00. As of September 30, 2023, our net secured leverage ratio was 2.25 to 1.00. The Tranche A Term Loan Facility and the Revolving Facility added certain financial covenants that require us to maintain a total leverage ratio below 3.75 to 1.00 as well as an interest coverage ratio above 3.00 to 1.00. As of September 30, 2023, our total leverage ratio was 2.37 to 1.00, and our interest coverage ratio was 7.00 to 1.00. We were in compliance with all other covenants of the Amended Credit Agreement as of September 30, 2023.

As of September 30, 2023, we had \$1,211.4 million of available liquidity, comprised of \$161.5 million of cash and cash equivalents and \$1,049.9 million available under our Revolving Facility, net of outstanding letters of credit. As of September 30, 2023, total liquidity is reduced to \$983.6 million under our most restrictive debt covenants and consists of \$161.5 million of cash and cash equivalents and \$822.1 million available under our Revolving Facility. We believe we have a strong liquidity position that allows us to execute our strategic plan and provides the flexibility to continue to invest in future growth opportunities.

In September 2020, our Board of Directors approved a stock repurchase program, which commenced on October 27, 2020, and allowed for the repurchase of up to \$250.0 million of our common stock over a 24-month period. That program was exhausted in the third quarter of 2022. In July 2022, our Board of Directors approved another stock repurchase program, which commenced on August 5, 2022, and allows for the repurchase of up to \$500.0 million of our common stock over a 24-month period. Pursuant to the approved program, we may repurchase our common stock from time to time, in amounts and at prices we deem appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at our discretion and will depend on a number of factors, including the market price of our common stock, general market and economic conditions, applicable legal requirements, and compliance with the terms of our credit agreements. The repurchases may be funded with cash on hand, available borrowings, or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. During the third quarter of 2023, we repurchased 875,580 shares of our common stock for \$100.3 million. There were no share repurchases under the program during the first and second quarters of 2023. During the third quarter of 2022, we repurchased 536,633 shares of our common stock for \$123.9 million. There were no share repurchases under the program during the first and second quarters of 2022. Since the inception of all stock repurchase programs (starting in August 2015), we have repurchased 12,624,293 shares of common stock for \$877.4 million (at an average cost per share of \$69.50). We have periodically reissued shares out of Treasury stock, including for earnout payments.

See Note 11, "Credit Agreements," and Note 12, "Stock Repurchase Program," to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for more information on our credit agreements and stock repurchase program.

We have an arrangement with a finance company to provide floor plan financing for selected dealers. This arrangement provides liquidity for our dealers by financing dealer purchases of products with credit availability from the finance company. We receive payment from the finance company after shipment of

product to the dealer, and our dealers are given a longer period of time to pay the finance company. If our dealers do not pay the finance company, we may be required to repurchase the applicable inventory held by the dealer. We do not indemnify the finance company for any credit losses they may incur. Total dealer purchases financed under this arrangement accounted for approximately 17% and 16% of net sales for the nine months ended September 30, 2023 and 2022, respectively. The amount financed by dealers which remained outstanding was \$168.5 million and \$212.2 million as of September 30, 2023 and December 31, 2022, respectively.

Long-term Liquidity

We believe that our cash and cash equivalents, cash flow from operations, and availability under our Revolving Facility and other short-term lines of credit will provide us with sufficient capital to continue to grow our business in the future. We may use a portion of our cash flow to pay principal on our outstanding debt, as well as repurchase shares of our common stock, impacting the amount available for working capital, capital expenditures, acquisitions, and other general corporate purposes. As we continue to expand our business, we may require additional capital to fund working capital, capital expenditures or acquisitions.

Cash Flow

Nine months ended September 30, 2023, compared to the nine months ended September 30, 2022

The following table summarizes our cash flows by category for the periods presented:

(U.S. Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Net cash provided by (used in) operating activities	\$ 204,724	\$ (42,352)	\$ 247,076	583.4%
Net cash used in investing activities	(98,445)	(85,082)	(13,363)	-15.7%
Net cash (used in) provided by financing activities	(77,568)	214,871	(292,439)	-136.1%

The increase in operating cash flows for the nine months ended September 30, 2023, primarily represents a significantly lower investment in working capital as compared to the prior year, partially offset by lower operating earnings.

Net cash used in investing activities for the nine months ended September 30, 2023, primarily represents cash payments of \$77.7 million related to the purchase of property and equipment, \$16.0 million for the acquisition of REFUstor, \$6.6 million for a tax equity investment, and a \$2.6 million minority investment in Rolling Energy Resources and Earth Foundry. These were partially offset by cash proceeds from beneficial interests in securitization transactions of \$2.5 million and proceeds from the sale of property and equipment of \$1.9 million.

Net cash used in investing activities for the nine months ended September 30, 2022, primarily represents cash payments of \$64.8 million related to the purchase of property and equipment, \$14.9 million for a contribution to a tax equity investment, and \$11.4 million related to the acquisition of businesses, which were partially offset by cash proceeds from beneficial interests in securitization transactions of \$2.7 million, cash proceeds from the sale of property and equipment of \$2.0 million, and cash proceeds from the sale of an investment of \$1.3 million.

Net cash used in financing activities for the nine months ended September 30, 2023, primarily represents proceeds of \$345.4 million from long-term borrowings, \$49.1 million from short-term borrowings, and \$7.1 million from the exercise of stock options. These cash proceeds were more than offset by \$104.8 million in cash payments used to purchase the remaining ownership interest in Pramac, \$100.3 million used for stock repurchases, \$259.0 million of debt repayments (\$25.9 million of short-term borrowings and \$233.1 million of long-term borrowings and finance lease obligations), \$10.1 million of taxes paid related to equity awards, and \$5.0 million for payment of contingent acquisition consideration.

Net cash provided by financing activities for the nine months ended September 30, 2022, primarily represents proceeds of \$935.6 million from long-term borrowings, \$237.2 million from short-term borrowings, and \$13.6 million from the exercise of stock options. These cash proceeds were partially offset by \$780.0 million of debt repayments (\$239.6 million of short-term borrowings and \$540.4 million of long-term borrowings and finance lease obligations), \$123.9 million of stock repurchases, \$40.5 million of taxes paid related to equity awards, \$16.1 million of contingent consideration for acquired businesses, and \$10.3 million for payment of debt issuance costs.

Contractual Obligations

There have been no material changes to our contractual obligations since the February 22, 2023 filing of our Annual Report on Form 10-K for the year ended December 31, 2022, except for the changes in outstanding borrowings and interest rates as discussed in Note 11, "Credit Agreements," to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, in preparing the financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk and financial condition. The Company believes, given current facts and circumstances, its estimates and assumptions are reasonable, adhere to U.S. GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates, and estimates may vary as new facts and circumstances arise. The Company makes routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, prepaid expenses, product warranties and other reserves. Management believes the Company's most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment; business combinations and purchase accounting; and income taxes.

There have been no material changes in our critical accounting policies since the February 22, 2023 filing of our Annual Report on Form 10-K for the year ended December 31, 2022.

Non-GAAP Measures

Adjusted EBITDA

To supplement our condensed consolidated financial statements presented in accordance with U.S. GAAP, we provide the computation of Adjusted EBITDA attributable to the Company, which is defined as net income before noncontrolling interest adjusted for the following items: interest expense, depreciation expense, amortization of intangible assets, income tax expense, certain non-cash gains and losses including certain purchase accounting and contingent consideration adjustments, share-based compensation expense, losses on extinguishment of debt, certain transaction costs and credit facility fees, business optimization expenses, certain specific provisions, and adjusted EBITDA attributable to noncontrolling interests, as set forth in the reconciliation table below.

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 2023 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. 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 the 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 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.

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

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 capital 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 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 of 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 quarterly 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 quarterly calculations are subject to review by our Board of Directors in the context of the Board's review of our quarterly financial statements and certification by our Chief Financial Officer in a compliance certificate provided to the lenders under our Amended Credit Agreement, 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)	Three Months Ended September		Nine Months Ended September	
	30, 2023	2022	2023	2022
Net income attributable to Generac Holdings Inc.	\$ 60,377	\$ 58,270	\$ 118,005	\$ 328,487
Net income attributable to noncontrolling interests	257	2,176	2,305	6,492
Net income	60,634	60,446	120,310	334,979
Interest expense	24,707	15,514	72,862	35,303
Depreciation and amortization	42,951	39,165	124,149	116,724
Provision for income taxes	19,428	11,594	43,184	86,028
Non-cash write-down and other adjustments (a)	2,055	(6,840)	(5,257)	(10,025)
Non-cash share-based compensation expense (b)	9,927	6,861	30,306	23,423
Loss on extinguishment of debt (c)	-	-	-	3,743
Transaction costs and credit facility fees (d)	921	1,250	3,161	3,831
Business optimization and other charges (e)	5,291	622	8,151	3,371
Provision for legal, regulatory, and clean energy product charges (f)	22,113	55,265	27,913	55,265
Other	575	(61)	443	(951)
Adjusted EBITDA	188,602	183,816	425,222	651,691
Adjusted EBITDA attributable to noncontrolling interests	493	3,632	4,146	10,799
Adjusted EBITDA attributable to Generac Holdings Inc.	<u>\$ 188,109</u>	<u>\$ 180,184</u>	<u>\$ 421,076</u>	<u>\$ 640,892</u>

(a) Represents gains/losses on the disposition of assets and sales of certain investments, unrealized mark-to-market adjustments on commodity contracts, certain foreign currency related adjustments, and certain purchase accounting and contingent consideration adjustments. We believe that adjusting net income for these non-cash charges and gains is useful for the following reasons:

- The gains/losses on disposals of assets and sales of certain investments 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.
- Purchase accounting and contingent consideration related adjustments relate to the acquisition of businesses and the accounting related to those acquisitions.

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

(c) Represents the write-off of original issue discount and capitalized debt issuance costs due to voluntary debt prepayment.

(d) 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.

(e) Represents severance and other restructuring charges related to the consolidation of certain operating facilities and organizational functions.

(f) The amount recorded in the third quarter 2023 represents a provision for judgments, estimates of pre-judgment interest and costs, and legal expenses related to certain patent lawsuits. The amount recorded in the first quarter 2023 represents a provision of \$5.8 million for a matter with the CPSC concerning the imposition of civil fines for allegedly failing to timely submit a report under the CPSA in relation to certain portable generators that were subject to a voluntary recall previously announced on July 29, 2021. The amount recorded in the third quarter of 2022 represents a specific bad debt provision of \$17.9 million for a clean energy product customer that filed for bankruptcy as well as a warranty provision of \$37.3 million to address certain clean energy product warranty-related matters.

Adjusted Net Income

To further supplement our condensed consolidated financial statements in accordance with U.S. GAAP, we provide the computation of Adjusted Net Income attributable to the Company, which is defined as net income before noncontrolling interest adjusted for the following items: amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges (if any), certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization and other charges, certain specific provisions, certain other non-cash gains and losses or charges, and adjusted net income attributable to noncontrolling interests, as set forth in the reconciliation table below.

We believe Adjusted Net Income is used by securities analysts, investors and other interested parties in the evaluation of the 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.

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.

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

(U.S. Dollars in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income attributable to Generac Holdings Inc.	\$ 60,377	\$ 58,270	\$ 118,005	\$ 328,487
Net income attributable to noncontrolling interests	257	2,176	2,305	6,492
Net income	60,634	60,446	120,310	334,979
Amortization of intangible assets	26,718	25,751	78,934	77,681
Amortization of deferred finance costs and original issue discount	981	974	2,902	2,261
Loss on extinguishment of debt (a)	-	-	-	3,743
Transaction costs and other purchase accounting adjustments (b)	356	(7,605)	1,743	(7,651)
(Gain)/loss attributable to business or asset dispositions (c)	-	-	(119)	(229)
Business optimization and other charges (d)	5,291	622	8,151	3,371
Provision for legal, regulatory, and clean energy product charges (e)	22,113	55,265	27,913	55,265
Tax effect of add backs	(13,887)	(21,233)	(28,476)	(36,907)
Adjusted net income	102,206	114,220	211,358	432,513
Adjusted net income attributable to noncontrolling interests	257	2,031	2,305	7,199
Adjusted net income attributable to Generac Holdings Inc.	\$ 101,949	\$ 112,189	\$ 209,053	\$ 425,314
Adjusted net income per common share attributable to Generac Holdings Inc. - diluted:	\$ 1.64	\$ 1.75	\$ 3.35	\$ 6.58
Weighted average common shares outstanding - diluted:	62,091,163	64,267,638	62,362,743	64,630,346

(a) Represents the write-off of original issue discount and capitalized debt issuance costs due to voluntary debt prepayment.

(b) 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 and contingent consideration adjustments.

(c) Represents gains and losses attributable to the disposition of a business or assets occurring in other than ordinary course, as defined in our credit agreement.

(d) Represents severance and other restructuring charges related to the consolidation of certain operating facilities and organizational functions.

(e) The amount recorded in the third quarter 2023 represents a provision for judgments, estimates of pre-judgment interest and costs, and legal expenses related to certain patent lawsuits. The amount recorded in the first quarter 2023 represents a provision of \$5.8 million for a matter with the CPSC concerning the imposition of civil fines for allegedly failing to timely submit a report under the CPSA in relation to certain portable generators that were subject to a voluntary recall previously announced on July 29, 2021. The amount recorded in the third quarter of 2022 represents a specific bad debt provision of \$17.9 million for a clean energy product customer that filed for bankruptcy as well as a warranty provision of \$37.3 million to address certain clean energy product warranty-related matters.

New Accounting Standards

Refer to Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements for further information on the new accounting standards applicable to the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended September 30, 2023, in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

[See Note 15, "Commitments and Contingencies," to the condensed consolidated financial statements for further information on the Company's legal proceedings.](#)

Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 22, 2023 filing of our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

The following table summarizes the stock repurchase activity for the three months ended September 30, 2023, which consisted of stock repurchases made as authorized under previously announced stock repurchase programs, as well as the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs</u>	<u>Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs</u>
07/01/2023 – 07/31/2023	29	\$ 148.94	-	\$ 278,059,869
08/01/2023 – 08/31/2023	664,485	\$ 113.06	664,400	\$ 202,945,634
09/01/2023 – 09/30/2023	216,561	\$ 119.02	211,180	\$ 177,793,103
Total	<u>881,075</u>	<u>\$ 114.52</u>		

For equity compensation plan information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2022. For information on the Company's stock repurchase plans, refer to Note 12, "Stock Repurchase Program," to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

During the three months ended September 30, 2023, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

<u>Exhibits Number</u>	<u>Description</u>
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related Notes to Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 formatted as inline XBRL (included in Exhibit 101).

* Filed herewith.

** Furnished herewith

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Jagdfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, York A. Ragen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ York A. Ragen

Name: York A. Ragen
Title: Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2023 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2023 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023

/s/ York A. Ragen

Name: York A. Ragen

Title: Chief Financial Officer