

**GENERAC®**

# POWERING AHEAD

Investor Presentation

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& EU Autos Conference 2014

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**GENERAC**<sup>®</sup>

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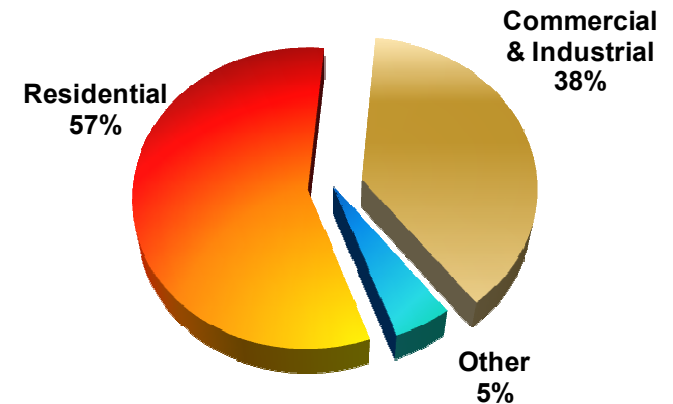


# Generac Business Overview

## About Generac –

- Founded in **1959**
- A leading designer and manufacturer of a wide range of **power generation equipment** and **other engine powered products** serving residential, light commercial, industrial and construction markets.
- Products are **available globally through a broad network** of independent dealers, retailers, wholesalers and equipment rental companies, as well as sold direct to certain end users.
- Products marketed and distributed primarily under the **Generac, Magnum, Ottomotores and Tower Light** brands.
- Approx. **3,400 employees** at 12/31/2013
- Approx. **2.0 million ft<sup>2</sup>** of manufacturing and distribution capacity located in **Wisconsin, Mexico, Italy, UK and Brazil**.

**12/31/13 LTM Sales:  
\$1.486 billion**



# Major Long-Term Growth Themes

## Residential Backup Power

- Key drivers: aging and underinvested grid, favorable demographics, increasing power outages
- Low penetration (~3%) within emerging product category of home standby (HSB) generators
- ~ 70% share of domestic HSB market with significant barriers to entry
- Leading position in portable generators further enhances brand awareness

## Commercial & Industrial Generators

- Natural gas generators gaining share vs. diesel in the U.S. and Canada
- Low penetration within emerging “Optional” standby market
- Growing importance of backup power for critical telecommunications infrastructure
- Recently expanded product offering significantly increases addressable market

## Mobile and Engine Powered Products

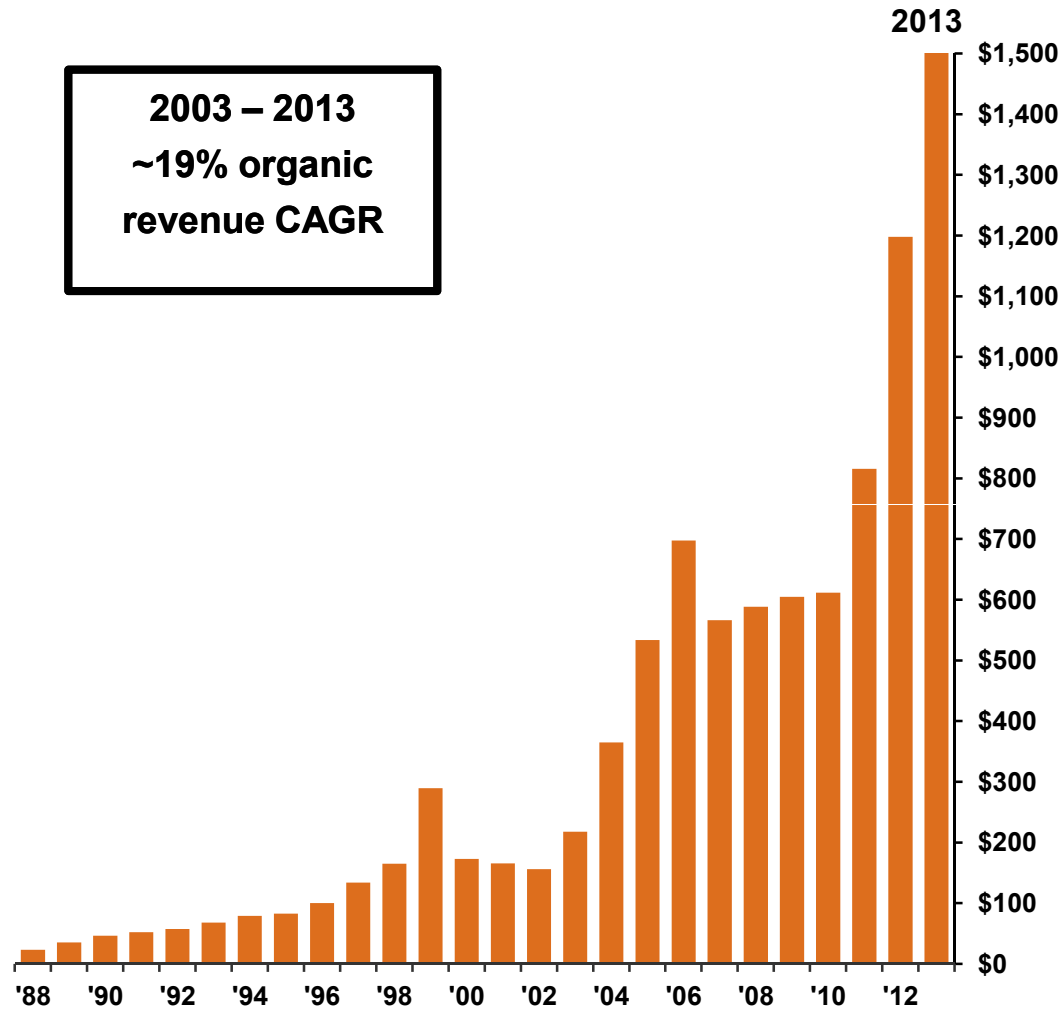
- Mobile products platform benefitting from secular shift toward renting of mobile equipment
- Acquisitions provide access to opportunity in oil & gas market that requires mobile lighting and power
- Growing share in power washers after re-entering market in 2011
- Entry into additional “engine-powered” adjacent product categories

## International Expansion

- Leverage recent acquisitions and drive growth in markets with additional investment and focus
- Execute on a number of identified revenue and cost synergies across the enterprise
- Future acquisitions may provide opportunity to accelerate expansion into other regions of the world

# Track Record of Innovation and Growth

**2003 – 2013**  
**~19% organic**  
**revenue CAGR**








## History of Innovation Driving Organic Growth

- Commercialized affordable home standby generators and light-commercial generators
- Differentiated distribution model
- Over 250 engineers on staff as of 12/31/13, ~ 100 U.S. and international patents and patent applications
- Natural gas and Bi-Fuel™ expertise
- Modular Power System (MPS) approach for industrial applications
- Continued focus on new product introductions

Note: \$ amounts in millions. Represents gross sales excluding freight revenue. Excludes "Portable Product" sales prior to the division's divestiture in 1998. Figures include results from the Magnum Products acquisition completed on October 3, 2011, the Ottomotores acquisition completed December 8, 2012, the Tower Light acquisition completed August 1, 2013, and the Baldor Generators acquisition completed on November 1, 2013.

# Broad Product Offering

## Residential Products

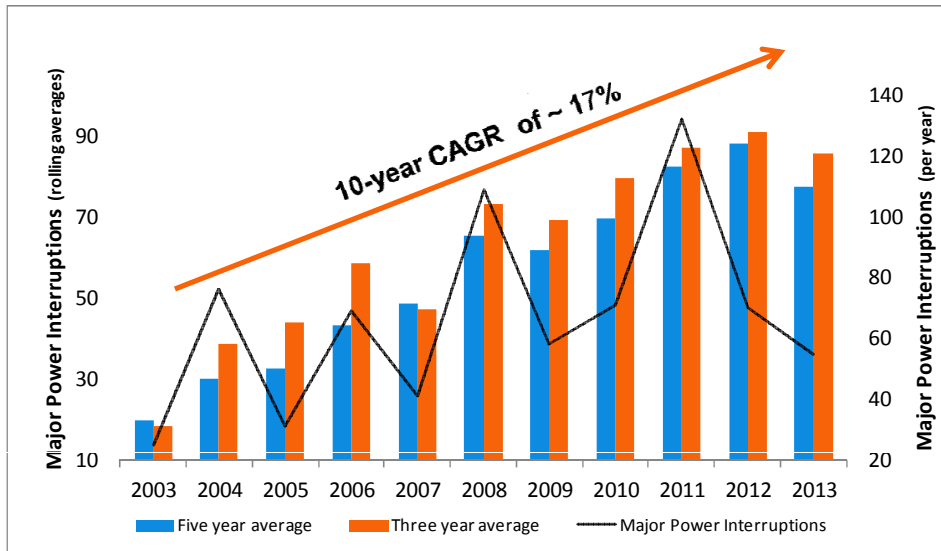
	Product	End Markets Served
	<b>Power Washers</b>	Light to medium duty use - mainly by consumers
	<b>Inverter Generators</b>	Recreation and other light duty power uses
	<b>Portable Generators &amp; Manual Transfer Switches</b>	Emergency home backup, construction uses
	<b>Air-cooled Home Standby Generator</b>	Emergency backup – small to medium homes
	<b>Liquid-cooled Home Standby Generator</b>	Emergency backup – larger homes & small businesses

## Industrial Products

	Product	End Markets Served
	<b>Light Towers &amp; Mobile Generators</b>	Temporary lighting and power for construction, energy and other - rental equipment co's a key channel
	<b>Larger kW &amp; Container Gensets</b>	Prime & emergency backup – regulated markets
	<b>Larger kW &amp; Container Gensets</b>	Prime & emergency backup – non-regulated markets
	<b>Commercial Stationary Generators</b>	Emergency backup – small to mid-sized retail, telecom, municipal
	<b>Industrial Stationary Generators</b>	Emergency backup – large healthcare, telecom, municipal, manufacturing

# Powerful Macro Trends Drive Home Standby Penetration Opportunity

## Aging Grid driving Power Interruptions<sup>(1)</sup>

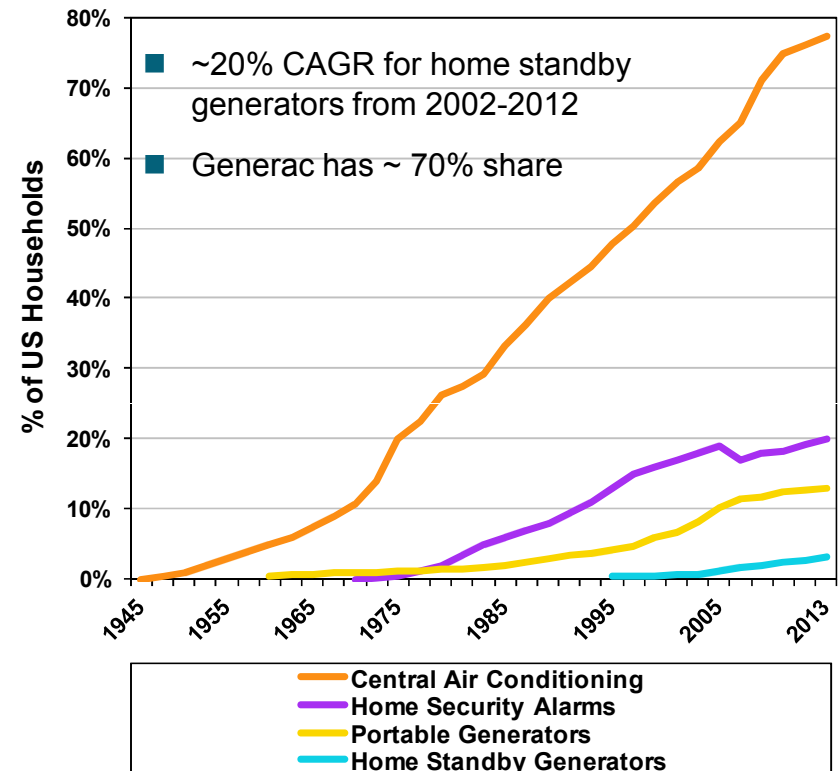


- 30–50% of T&D network in the U.S. is 40–50 years old
- Undergrounding the grid would cost up to \$4.0 trillion<sup>(2)</sup>

## Aging Population fits Demographic<sup>(3)</sup>

- 75-80% of buyers age 50 and older
- 45-50% of homes valued under \$300k
- 85-90% retro-fit application

## North American Penetration Opportunity<sup>(4)</sup>



Every 1% of increased penetration equals ~ \$2 billion of market opportunity

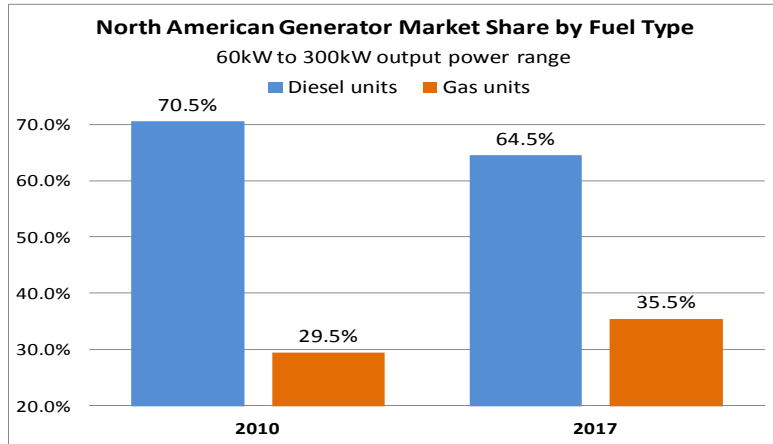
(1) Source: U.S. Energy Information Administration. Interruptions measured as affecting more than 50,000 customers and comparing to three and five-year rolling averages.

(2) At \$1mm/mile (3) Source: Company warranty registration data (4) Source: Management estimates



# Secular Penetration Opportunities – Commercial and Industrial

## Natural Gas vs. Diesel Market Growth



Source: Frost & Sullivan, Generac estimates

Nat gas gensets up to 35% less expensive, with lower operating costs than diesel - leading to improved ROI

## Light Commercial/Retail Opportunity

“Optional” Standby Customers



Over 14 million buildings in U.S. with very low penetration – increasing level of outages driving the need for backup power

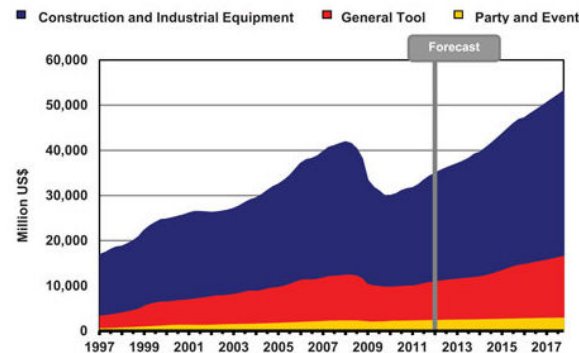
## Wireless Communications Infrastructure



~ 300,000 cell tower sites in U.S. with only 30-35% penetration, providers facing increasing competitive/regulatory pressures to harden networks

## Mobile Equipment - Rental vs. Buy

### North American Rental Revenue



Source: ARA Rental Market Monitor, IHS Global Insight - December 2013 forecast

Overall industry projected to grow at ~ 9% CAGR from 2013-2017, with construction/industrial projected to grow at a similar level



# Differentiated Distribution Model

**Residential & Light Commercial Distribution:**

**Commercial & Industrial Distribution:**

● = ~ 5,400 Res/Comm Dealers

● = ~ 110 Industrial Dealer Locations

**Res/Comm Dealers**

**National Retailers**

**Catalog and E-Commerce**

**Wholesalers**

**Private Label Partners**



**Industrial Dealers**

**National Accounts**

**Equipment Rental Yards**

**Oil and Gas Accounts**

**Gov't and Military**

**Established and diverse distribution model = growth driver & competitive advantage**



## ***Grow Residential Standby Generator Market***

- *Awareness*
- *Availability*
- *Affordability*



## ***Gain Industrial Market Share***

- *Expand product offering*
- *Upgrade distribution*
- *Increase awareness in “optional” standby power market*
- *Build relations with specifying engineers*



## ***Diversify End Markets with new products and services***

- *Leverage brand*
- *Leverage distribution*
- *Leverage supply chain*



## ***Enter New Geographies***

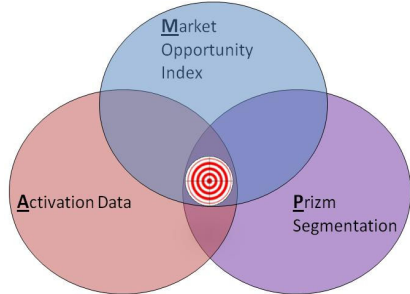
- *Ottomotores local manufacturing, higher-power products and distribution*
- *Tower Light gives expanded platform as a leading provider of mobile power equipment*
- *Build additional distribution*



# Growing Residential Standby Generator Market

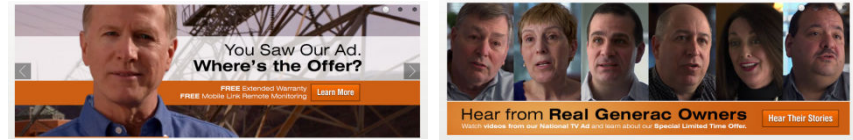
## Finding the most “likely” prospect

- A.M.P.™ targeted marketing process



## Driving optimized media selection

- “Power You Control” national TV ad campaign
- Direct mail, telemarketing, etc.



## Improving close rates

- PowerPlay™ in-home selling solution



PowerPlay



Consultive Back-up Power Plan



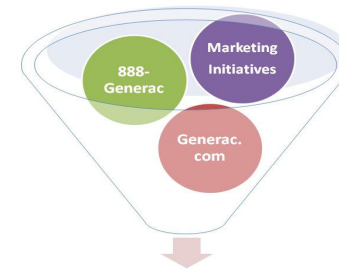
NEC Approved Technical Generator Sizing



Customized Proposal

## Scheduling in-home consultations

- Generac Lead Team qualifies sales prospects



# Gaining Commercial & Industrial Market Share

**GENERAC**

## Expand Product Offering and Distribution

- Baldor acquisition expands product offering of standby and prime-rated generators up to 2.5 MW for U.S. and Canada
- Essentially doubles addressable domestic market that distribution partners can serve
- Expansion of existing natural gas product offering
- Opportunities to add and upgrade distribution



Large kW single-engine Genset



Gemini Technology



Modular Power Technology

## Create Commercial Market

- “Optional” standby power market remains underpenetrated – addressable market is over 14 million buildings in the U.S.
- Recently launched direct marketing campaign targeted at light commercial applications such as gas stations, convenience stores, etc.
- Driving awareness of compelling ROI for backup generators
- Direct sales initiatives targeting regional and national accounts



Cost of 4 hours outage per business <sup>(1)</sup>		Current and prospective customers	
Food Sales	<ul style="list-style-type: none"> <li>▪ Grocery and convenience stores</li> </ul>	\$26,234	
Food Service	<ul style="list-style-type: none"> <li>▪ Restaurants</li> </ul>	\$20,161	
Mercantile	<ul style="list-style-type: none"> <li>▪ Retail stores, pharmacies</li> </ul>	\$4,892	
Healthcare	<ul style="list-style-type: none"> <li>▪ Hospitals, nursing homes</li> </ul>	\$1,593	
Telecom	<ul style="list-style-type: none"> <li>▪ Wireless towers</li> </ul>	n/a	

<sup>(1)</sup> Source: SENTECH

# Diversification of End Markets

GENERAC

## Acquisitions Expand Product Offering

- **Magnum** (Oct '11) – mobile products including light towers, mobile generators and pumps
- **Ottomotores** (Dec '12) – larger kW and container gensets for int'l markets
- **Tower Light** (Aug '13) – expands offering of mobile light towers to support int'l markets
- **Baldor** (Nov '13) – expands domestic offering of standby and prime-duty gensets up to 2.5 MW

**MAGNUM™**  
POWER PRODUCTS LLC



Light Tower & Mobile Generator

**ottomotores**



Large kW Genset

**TOWER LIGHT**



Light Tower

**BALDOR**



Large kW Genset

## Organic Expansion Through Innovation

- Re-entry into power washer product category through innovation
- New OneWASH™ product launched in Q4 2012
- Mobile Link™ remote monitoring launched in Q1 2013
- Evaluating adjacent engine powered products



**Mobile Link™**



# Entering New Geographies

GENERAC

## Key Areas of Focus

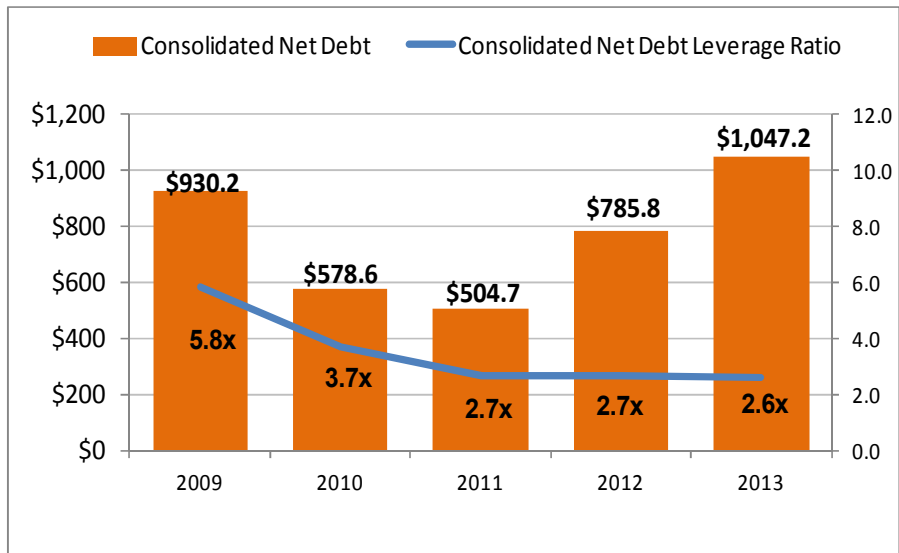
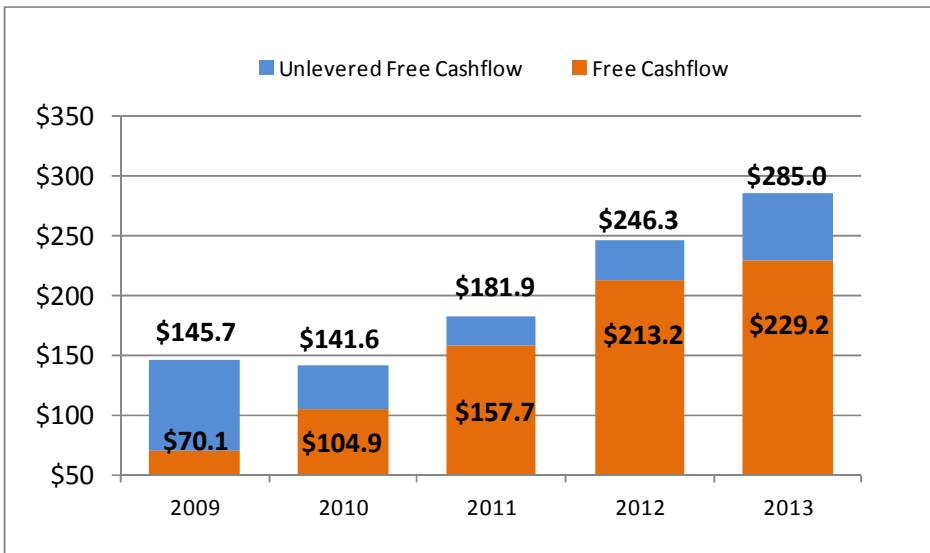
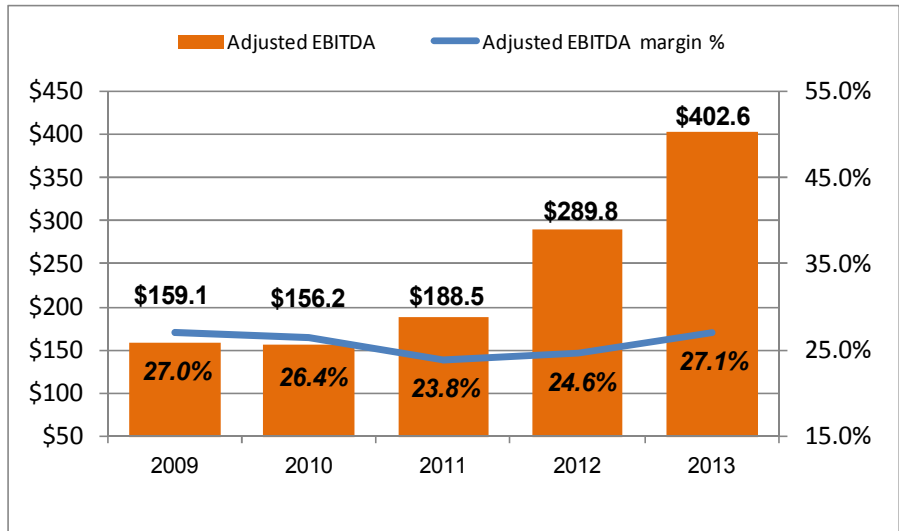
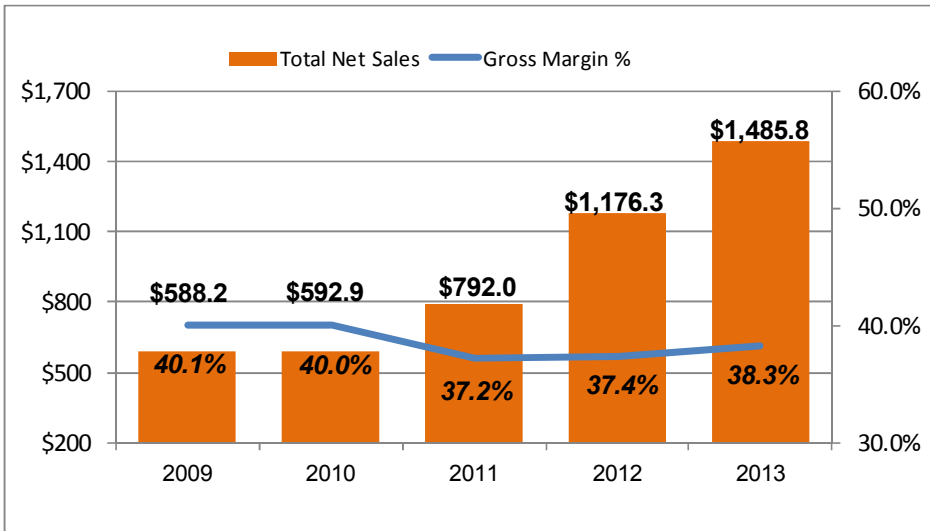
- Leverage recent Ottomotores and Tower Light acquisitions and drive growth in markets with additional investment and focus
- Execute on a number of identified revenue and cost synergies across the enterprise
- Establishing and developing distribution globally
- Building the Generac brand internationally
- Investing in Generac Brasil
- Evaluate additional regions of the world for future expansion through both organic growth and potential acquisitions

**ottomotores**  
A Generac Company



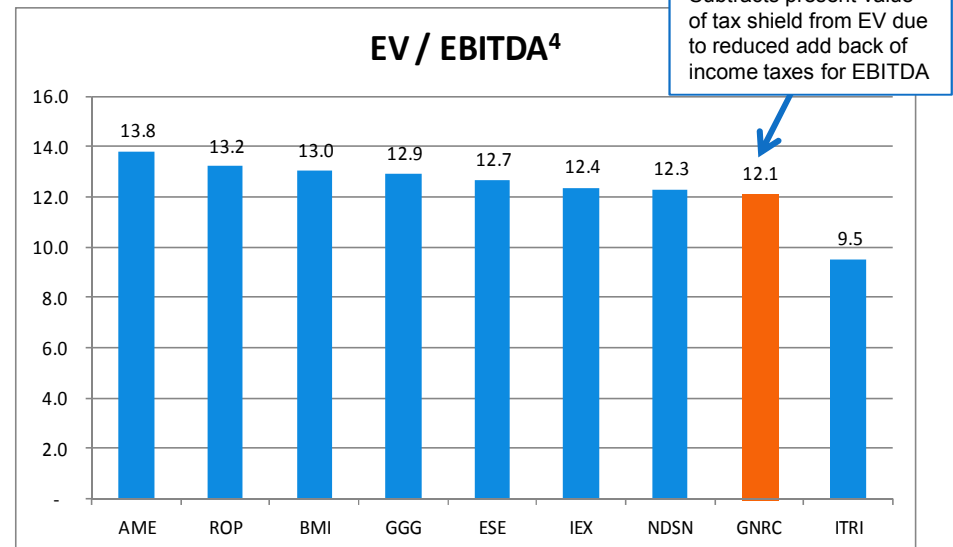
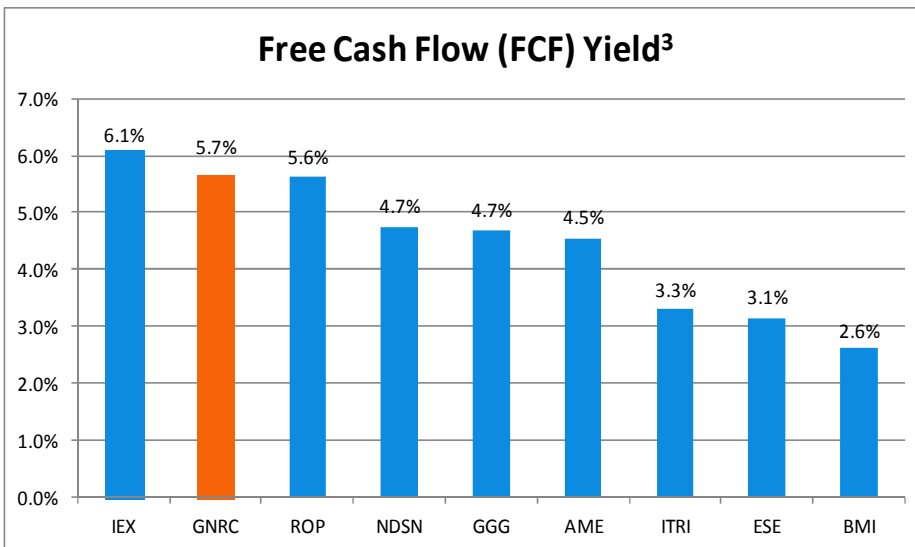
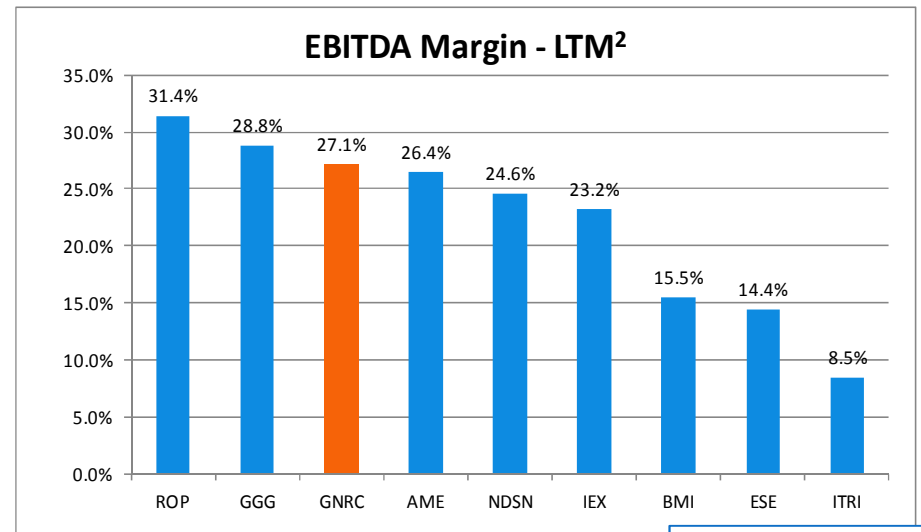
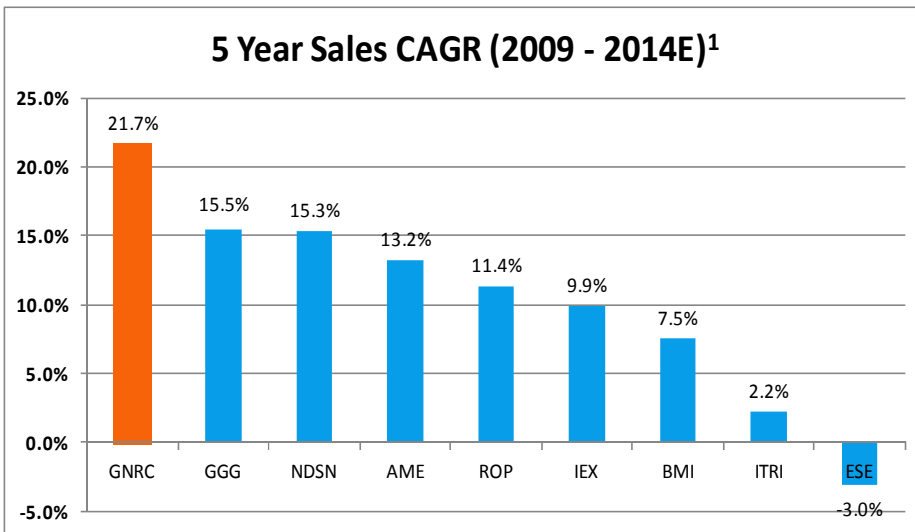
Sales outside the U.S. and Canada now represent over 10% of total revenues

# Financial Summary



Note: Unlevered free cash flow = free cash flow plus cash interest expense.

# Relative Performance – Compared with Industrial Technology Peers



Source: Thomson One, Company Filings Note: Charts for Free Cash Flow Yield and Enterprise Value / NTM EBITDA use closing share prices as of March 11, 2014.

(1) Figures represent a five-year compound annual growth rate calculated by comparing the base year 2009 to the analyst consensus revenue forecast for 2014 for each company.

(2) Adjusted EBITDA figures were used for GNRC. For all other companies, EBITDA is calculated as Operating Income plus D&A .

(3) Determined by taking the ratio of FCF (Operating Cash Flow less Capex) to Market Capitalization.

(4) Based on recent enterprise value to consensus NTM EBITDA estimates. Figure for GNRC determined by subtracting the value of the tax shield in determining enterprise value.



# 2014 Business Outlook

**Net sales:** increase *mid-single digit range* vs. a strong 2013

- Residential product sales: excluding \$140 million benefit in 1H 2013 from extended lead times, increase *between 10-12%* in 2014 vs. 2013
- C&I product sales: increase in the *low-20% range* vs. 2013 through combination of *mid-to-high single digit organic growth* and Tower Light and Baldor acquisitions

**Adjusted EBITDA:** 2014 margins expected to remain attractive in the *mid-20% range* – consistent with the average level seen during 2010-2013

- **Gross margins:** expected to *decline by approximately 100 bp* versus 2013
- **As-reported operating expenses** – as percentage of sales excluding amortization: expected to *increase approximately 100 bp* versus 2013

**Cash income taxes:** approximately \$63.0 - \$65.0 million

- **Cash tax rate for full-year 2014:** anticipated *between 21-22%* of pretax income
- **Cash taxes going forward:** 36-38% tax rate on incremental pre-tax profits *less ~ \$49 million* annual tax shield

**Flat organic sales growth (9-11% excl. \$140mm headwind) plus ~ 5% from acquisitions**

# Financial Policy – Priority Uses of Capital

		Historical	Expected
1	Continue to invest in business	> 20% CAGR organic revenue over past 2 years	<ul style="list-style-type: none"> <li>Support market-driven R&amp;D</li> <li>Invest in high-ROI capital spending projects and capacity expansion</li> <li>Capex consistently only ~ 2% of sales</li> </ul>
2	Publicly-stated net leverage target of 2-3X EBITDA	<ul style="list-style-type: none"> <li>2.6X at end of Q4 2013</li> </ul>	<ul style="list-style-type: none"> <li>Comfortable with current leverage metrics at current cost of TLB debt of 3.5% (3.25% beginning in Q2)</li> <li>Higher priority on debt paydown <b>IF</b> interest rates rise (current LIBOR floor of 0.75%) and/or net leverage ratio exceeds 3.0X</li> <li>Maintain strong liquidity profile</li> </ul>
3	Explore acquisitions for external growth	<ul style="list-style-type: none"> <li>Magnum in Q4 2011</li> <li>Gen-Tran in Q1 2012</li> <li>Ottomotores in Q4 2012</li> <li>Tower Light in Q3 2013</li> <li>Baldor in Q4 2013</li> </ul>	<ul style="list-style-type: none"> <li>Seek high-synergy acquisitions in line with Powering Ahead strategy</li> </ul>
4	Return of capital to shareholders	<ul style="list-style-type: none"> <li>Special dividends issued in Q2 2012 and Q2 2013</li> </ul>	<ul style="list-style-type: none"> <li>As future cash flow permits, may consider further return of capital to shareholders</li> </ul>

# Generac (GNRC) – Investment Highlights

## Best in class organic revenue growth

- **Nearly 20% CAGR** in organic revenue over the last 10 years
- Low penetration in key markets, especially home standby market at only ~3.0% penetrated with **every 1% increase representing ~ \$2 billion market opportunity**
- **Key macro drivers:** aging and underinvested grid; favorable demographics; increasing number of power disruptions; increasing reliance on uninterrupted power and data; natural gas gensets gaining share vs. diesel

## Market leader with significant barriers to entry

- **~ 70% share** of domestic home standby market
- Unmatched multi-channel distribution led by **over 5,400 residential & light commercial dealers**
- Exclusive **focus** on power generation and engine powered products
- Considerable **sourcing and manufacturing scale**

## Superior financial profile

- GMs consistently in the **high-30% range**, EBITDA margins in **mid-20% range**
- Favorable tax structure worth an **estimated \$3.75 to \$4.75 per share** in present value tax savings
- Strong track record of free cash flow conversion and de-levering balance sheet

## Strong product, market and geographic expansion opportunities

- Proven track record in completing **strategic acquisitions and introducing new products**
- **Significant international market opportunity** – less than 10% of 2013 revenue outside of U.S. and Canada; ~ 12% on a pro-forma basis with Tower Light acquisition

Leading “Industrial Technology” Company



# Appendix

# Acquisition of Baldor Generators



## Fast Facts –

- Acquired on November 1, 2013
- Headquartered in Oshkosh, Wisconsin
- 255,000 ft<sup>2</sup> manufacturing and testing facility
- Complete line of standby and prime-rated generators ranging from 3 kW up to 2.5 MW throughout the U.S. and Canada



Industrial Towable Standby Generators

## Strategic Rationale –

- Accelerates organic efforts to increase C&I market share
- Gain immediate access to a higher-powered line up of generators up to 2.5 MW, approximately doubles addressable domestic market for dealers
- Acquire a purpose-built facility that provides significant production and testing capacity for future growth
- Expanded product line enhances ability to strengthen C&I distribution base
- Offers compelling long-term revenue and cost synergies for C&I products business
- Very attractive “buy vs. build” cost avoidance benefits relative to the investment required to develop capabilities internally



Industrial Diesel Standby/Prime Generator



Containerized Standby/Prime Generator

# Acquisition of Tower Light business



## ***Fast Facts –***

- Acquired on August 1, 2013
- Headquartered outside Milan, Italy
- Approximately 100 employees and over 100,000 ft<sup>2</sup> in manufacturing and distribution space
- Broad product line of mobile light towers sold through a strong global distribution network in over 50 countries
- €37 million in net sales in 2012

## ***Strategic Rationale –***

- Leading market share player for mobile light towers in Europe, the Middle East and Africa
- Positions Generac as a global leader in light towers, allowing to participate in growing rental market outside of U.S.
- Premium margins as a result of flexible development and production environment, with focus on customized products for specific applications/markets
- Several attractive revenue synergy opportunities being evaluated including selling Magnum's mobile generators into Tower Light's significant distribution channels



**SuperLight VT1 – hydraulic**



**VB9 LED – fuel efficient**



**LinkTower – no generator**



# Acquisition of Ottomotores businesses

**ottomotores**

## ***Fast Facts –***

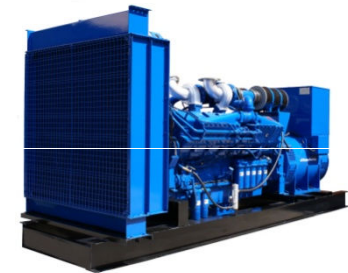
- Acquired on December 8, 2012
- Consists of Ottomotores Mexico, headquartered in Mexico City, and Ottomotores Brazil, located in Curitiba
- Over 500 employees and approx. 175,000 ft<sup>2</sup> in manufacturing and distribution space
- Diesel generators range from 15 kW up to 3.25 MW – with a focus on larger kW and container gensets

## ***Strategic Rationale –***

- Major market share player in Latin American standby power market
- Provides essential elements of local manufacturing presence, access to higher-power gensets and additional distribution
- Initial goal of approx. \$2 million in annualized cost synergies toward 2H '13
- Opportunities to sell Generac residential and light commercial standby generators, as well as Magnum's mobile equipment into Latin American market
- Provides enhanced platform and immediate scale for international growth initiatives



1 MW Container Genset



2 MW Genset



50 kVA  
UPS

# Favorable Tax Attributes

## Tax attributes and 338(h)10 election overview

- \$1.9 billion combined asset basis step-up created through 2006 acquisition of Generac and acquisitions of Magnum (Oct '11) and Baldor Generators (Nov '13)
  - Each amortizes over 15 years
  - Reduces cash tax obligation by approx. \$49 million per year through 2020

(\$ mm)	Total	2014	2015	2016	2017	2018	2019	2020	2021	2022+
<b>Annual tax amortization</b>	\$1,023	\$127	\$127	\$127	\$127	\$127	\$127	\$127	\$107	\$25
<b>Cash tax savings<sup>(1)</sup></b>	<b>\$394</b>	<b>\$49</b>	<b>\$49</b>	<b>\$49</b>	<b>\$49</b>	<b>\$49</b>	<b>\$49</b>	<b>\$49</b>	<b>\$41</b>	<b>\$10</b>

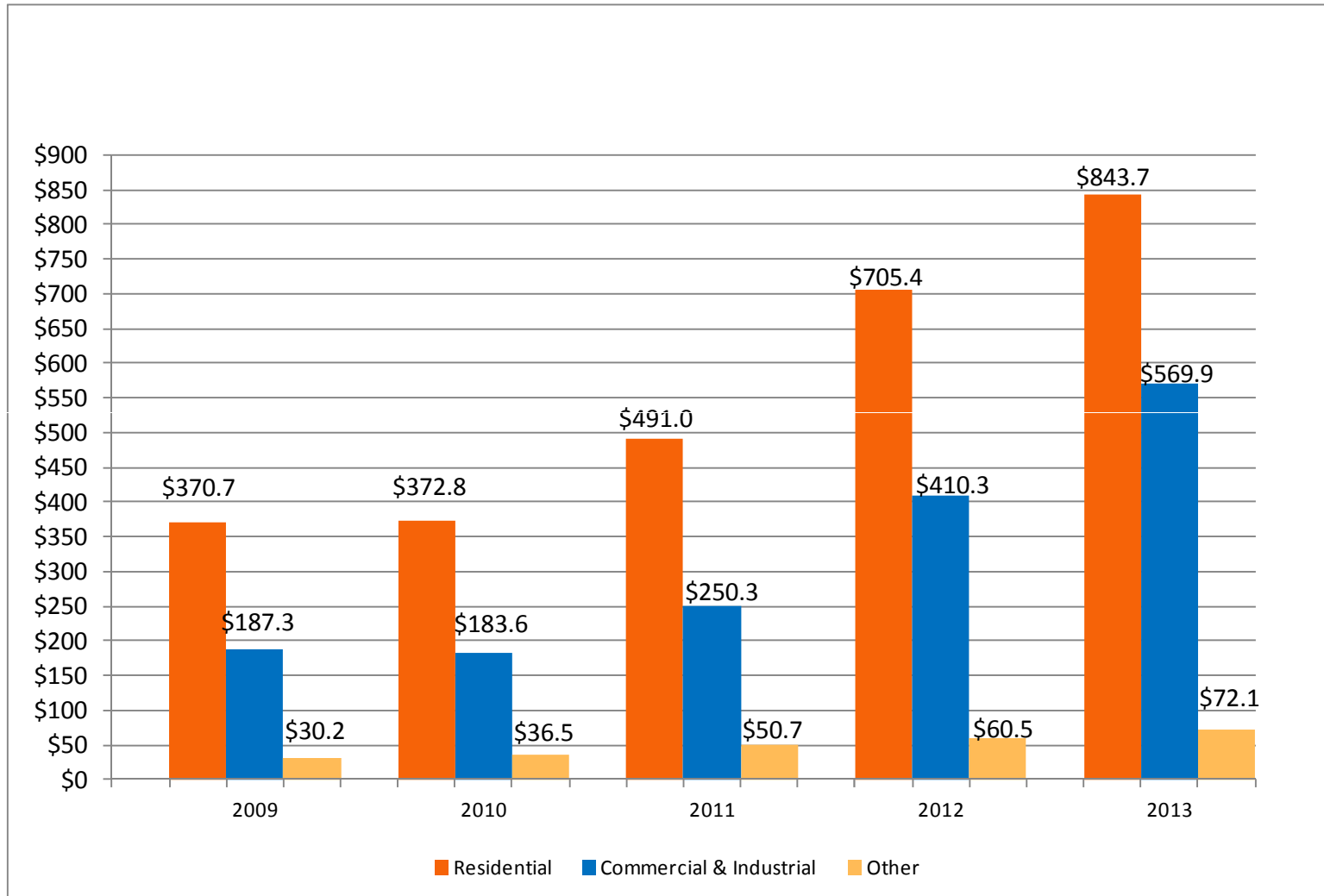
**Results in present value tax savings of ~ \$260-320 million<sup>(2)</sup> or \$3.75-\$4.75 per share**

(1) Assuming continued profitability and no limitations at an assumed 38.5% federal and state tax rate.

(2) Based on annual discount rate of between 5 and 10%

# Net Sales by Product Class

(\$ in millions)



Figures include results from the Magnum Products acquisition completed on October 3, 2011, the Ottomotores acquisition completed December 8, 2012, the Tower Light acquisition completed August 1, 2013 and the Baldor Generators acquisition completed on November 1, 2013 .



# Q4 2013 & LTM Financial Overview



(\$ in millions)	Actual	Y/Y %	Actual	Y/Y %
	Q4 2013	Change	FY 2013	Change
Residential	\$ 199.1	-7.8%	\$ 843.7	19.6%
Industrial	\$ 157.9	42.7%	\$ 569.9	38.9%
Other	\$ 19.2	24.6%	\$ 72.1	19.2%
Net Sales	\$ 376.2	10.0%	\$ 1,485.8	26.3%
Gross Profit	\$ 145.7	15.5%	\$ 569.6	29.3%
% Margin	38.7%		38.3%	
Adjusted EBITDA	\$ 103.6	24.7%	\$ 402.6	38.9%
% Margin	27.5%		27.1%	
Net Income	\$ 48.5	71.5%	\$ 174.5	87.2%
Adjusted Net Income	\$ 77.5	27.7%	\$ 301.7	36.6%
Adjusted EPS	\$ 1.11	26.9%	\$ 4.33	35.8%
Free Cash Flow	\$ 88.2	-9.4%	\$ 229.2	7.5%
Unlevered Free Cash Flow	\$ 99.8	-11.4%	\$ 285.0	15.7%
Consolidated Net Debt			\$ 1,047.2	33.3%
Consolidated Net Debt Leverage Ratio			2.6	

# Adjusted EBITDA Reconciliation



(\$ in millions)

	2009	2010	2011	2012	2013
<b>Reported net income</b>	\$ 43.1	\$ 56.9	\$ 324.6	\$ 93.2	\$ 174.5
Interest expense	70.9	27.4	23.7	49.1	54.4
Depreciation and amortization	59.7	59.4	56.1	54.2	36.8
Income taxes provision (benefit)	0.3	0.3	(237.7)	63.1	104.2
Non-cash write-down and other charges	(1.6)	(0.3)	10.4	0.2	0.1
Non-cash share-based compensation expense	-	6.4	8.6	10.8	12.4
Loss on extinguishment of debt	-	4.8	0.4	14.3	15.3
Transaction costs and credit facility fees	1.2	1.0	1.7	4.1	3.9
Non-cash gains	(14.7)	-	-	-	-
Other	0.2	0.4	0.5	0.7	1.0
<b>Adjusted EBITDA</b>	<b>\$ 159.1</b>	<b>\$ 156.2</b>	<b>\$ 188.5</b>	<b>\$ 289.8</b>	<b>\$ 402.6</b>

# Adjusted EBITDA Reconciliation



(\$ in thousands)

Net income to Adjusted EBITDA reconciliation	Three months ended December 31,		Year Ended December 31,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Net income	\$ 48,518	\$ 28,287	\$ 174,539	\$ 93,223
Interest expense	12,003	16,613	54,435	49,114
Depreciation and amortization	9,272	11,142	36,774	54,160
Income taxes provision	29,940	21,395	104,177	63,129
Non-cash write-down and other charges	43	388	78	247
Non-cash share-based compensation expense	2,897	2,759	12,368	10,780
Loss on extinguishment of debt	-	-	15,336	14,308
Transaction costs and credit facility fees	835	2,307	3,863	4,117
Other	139	237	1,043	731
<b>Adjusted EBITDA</b>	<b>\$ 103,647</b>	<b>\$ 83,128</b>	<b>\$ 402,613</b>	<b>\$ 289,809</b>



# Adjusted Net Income & Free Cash Flow Reconciliations



(\$ in thousands)

## Net income to Adjusted net income reconciliation

	Three Months Ended December 31,		Year Ended December 31,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Net income	\$ 48,518	\$ 28,287	\$ 174,539	\$ 93,223
Income taxes provision	29,940	21,395	104,177	63,129
Income before provision for income taxes	78,458	49,682	278,716	156,352
Amortization of intangible assets	6,286	8,965	25,819	45,867
Amortization of deferred financing costs and OID	1,225	1,244	4,772	3,759
Loss on extinguishment of debt	-	-	15,336	14,308
Transaction costs and credit facility fees	688	2,136	2,842	3,317
Adjusted net income before provision for income taxes	86,657	62,027	327,485	223,603
Cash income tax expense	(9,141)	(1,328)	(25,821)	(2,811)
Adjusted net income	\$ 77,516	\$ 60,699	\$ 301,664	\$ 220,792

## Free Cash Flow Reconciliation

Net cash provided by operating activities	\$ 104,731	\$ 106,370	\$ 259,944	\$ 235,594
Expenditures for property and equipment	(16,513)	(8,967)	(30,770)	(22,392)
Free cash flow	\$ 88,218	\$ 97,403	\$ 229,174	\$ 213,202
Cash interest	11,548	15,234	55,828	33,079
Unlevered free cash flow	\$ 99,766	\$ 112,637	\$ 285,002	\$ 246,281